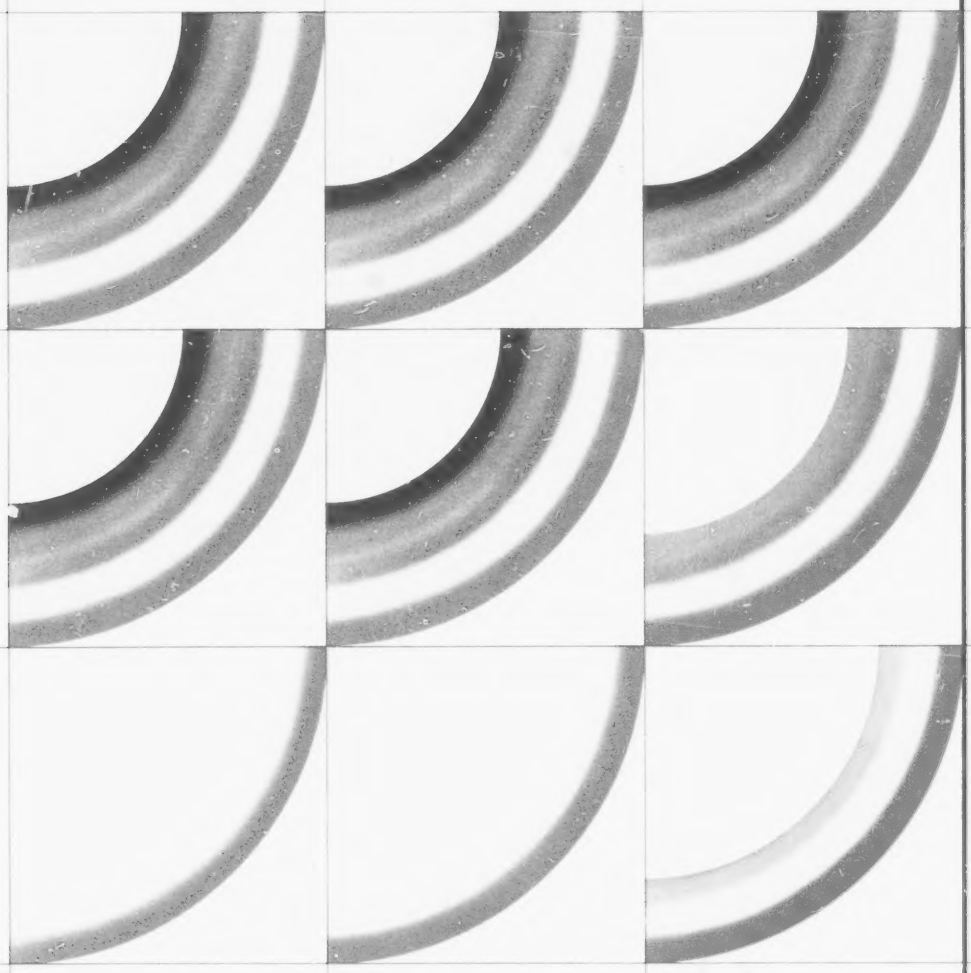
NACDS-LILLY DIGEST '80

A Survey of Chain Pharmacy Operations for 1979



A summary of the 1979 operations of
1,293 chain pharmacies

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Foreword

The tenth edition of the NACDS-Lilly Digest summarizes the operating statistics of 1,293 chain pharmacies. The primary purpose of the Digest is to provide useful information so that pharmacy managers can compare and evaluate individual unit performance and, when appropriate, initiate action for improvements. The contents of this publication are designed to assist chain store managers in making such management decisions.

The section entitled "Chain Pharmacy Operations —1979" on pages 4 and 5 offers an overview of the industry. The "Heart of the NACDS-Lilly Digest" (pages 21 through 27) is the "working section" of the Digest and presents average operating statistics to permit evaluations of chain units at all levels of sales and prescription activity. Further classification of chain stores by unit size, pharmacy location, and geographic region supplies store management with additional means for making a comparative evaluation of an individual pharmacy's performance.

Eli Lilly and Company is proud to provide this publication for the chain drug industry. The cooperation of the National Association of Chain Drug Stores, Inc., its board of directors, and, especially, the participating members has made this edition possible.

Note

The National Association of Chain Drug Stores, Inc., is pleased to share in the publication of the tenth edition of the NACDS-Lilly Digest. *The* Digest *continues to be a most valuable financial management tool for the chain pharmacies and is widely accepted as a comprehensive and accurate report of industry operating statistics.*

Robert J. Bolger, *President*
National Association of Chain Drug Stores, Inc.

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Chain Pharmacy Operations 1979

For the tenth consecutive year, the average NACDS-Lilly Digest pharmacy reported increased sales. During a period of high inflation, the average unit showed a somewhat higher cost-of-goods-sold figure than in 1978 (Table 1). Since total expenses expressed as a percent of sales remained unchanged from the previous year, net profit declined 0.2 percent from the 1978 level. The average number of prescriptions dispensed during 1979 reversed an upward trend noted over the past four years and returned to just above the level reached in 1977 (down 0.6 percent to 43,877).

A new record high was established in 1979 by the 1,293 participating stores that posted average sales of $1,606,756 and showed an 11.3 percent growth over the previous year's figure. The growth rate was significantly higher than the average annual rate of 9.0 percent found over the past decade. The increase resulted from a rise of 8.8 percent and 11.9 percent in prescription revenue and other sales respectively. The $23,221 gain in prescription sales was produced by a 57-cent advance in prescription charge, since the total number of prescriptions dispensed declined 0.6 percent from the 1978 figure. "Other" sales exhibited the largest dollar increase in NACDS-Lilly Digest history—over $140,000. Total sales also included a record one-year advance of more than $163,000.

In spite of double-digit inflation, the cost of goods sold went up only 0.2 percent, to 72.0 percent of sales. At the same time, management was able to hold the line on total expenses, with the result that net profit before taxes declined percentagewise (by 0.2 percent) but increased in terms of dollars by 6.3 percent.

The total wage package (manager's salary plus employees' wages) traditionally represents the greatest portion of expenses. In 1979, percentagewise, the figure decreased slightly—from 11.2 to 11.1 percent of sales—and hit a new low among Digest participants; however, in dollars, the increase was the largest ever reported, almost $17,000.

Miscellaneous operating expenses (shown within the braces in Table 1) halted a four-year uptrend by remaining unchanged at 10.0 percent of sales; dollarwise, there was a $16,945 increase. Although greater dollar amounts were reported, no important changes occurred in advertising, headquarters fee, and all other direct store expenses when expressed as percentages of sales.

Rent advanced slightly (0.1 percent) to the 1976 and 1977 level of 2.7 percent of sales. In dollars, rent rose 15.1 percent over 1978 figures—the largest one-year jump in the history of the NACDS-Lilly Digest. The average rental expense was just over $3,600 per month, or $4.98 per square foot per year, which reflected an increase (up 43 cents from $4.55 in 1978).

Once again, the average floor area continued to expand, to 8,680 square feet as compared with 8,261 square feet in 1978. Sales generated from the larger floor area continued the overall upward trend in total sales per square foot that began in 1971. The 1979 figure ($170.98) is $10.53 higher than that for the previous year. However, each square foot allocated to the prescription department yielded $662.14 in prescription revenue—a 1.8 percent decrease in sales productivity, even though the size of the prescription department grew by 8.9 percent.

The headquarters fee was slightly higher at 2.9 percent of sales as compared with 2.7 percent in 1978. This figure represents an allocation of central headquarters expenses to the individual chain unit. Warehouse fees were also somewhat higher for the units reporting such fees—2.6 as compared with 2.4 percent of sales—which may reflect higher costs of operating distribution centers, especially for labor.

Total inventory rose dollarwise by over $17,000, or 8.3 percent, from 1978 data but declined as a percent of sales from 14.5 to 14.1 percent. Inventory turnover reflected the current trend by moving up from 5.0 times to a level of 5.2 times. Sales per dollar invested in prescription inventory continued to rise, up from $10.37 in 1978 to $10.47. Sales of nonprescription merchandise improved dramatically over 1978 figures and showed a 7.9 percent growth. This was the second consecutive year that nonprescription goods inventory experienced a growth in productivity.

There was a 0.6 percent drop in total prescriptions dispensed, which reversed a two-year trend toward more prescription activity. The ratio of new prescriptions to total prescriptions rose from 53.1 to 53.9 percent, whereas the ratio of renewed prescriptions declined from 46.9 to 46.1 percent. New prescriptions were up 0.9 percent from the 1978 figure, but this was not enough to offset the lower number of renewals and resulted in a small decrease in the total number of prescriptions dispensed. The average prescription charge rose 9.5 percent, or 57 cents, to $6.56 in 1979.

TABLE 1

Current trends in chain pharmacy operations

AVERAGES PER PHARMACY	1979 (1,293 Pharmacies)	1978 (1,324 Pharmacies)	Amount and Percent of Change
Sales			
Prescription	$ 287,744— 17.9%	$ 264,523— 18.3%	$ 23,221— 8.8%
Other	1,319,012— 82.1%	1,178,776— 81.7%	$140,236—11.9%
Total	$1,606,756—100.0%	$1,443,299—100.0%	$163,457—11.3%
Cost of goods sold	1,156,667— 72.0%	1,036,746— 71.8%	$119,921—11.6%
Gross margin	$ 450,089— 28.0%	$ 406,553— 28.2%	$ 43,536—10.7%
Expenses			
Manager's salary	$ 26,515— 1.7%	$ 24,187— 1.7%	$ 2,328— 9.6%
Employees' wages	151,781— 9.4%	137,166— 9.5%	$ 14,615—10.7%
Rent	43,224— 2.7%	37,555— 2.6%	$ 5,669—15.1%
Utilities (including telephone)	15,876— 1.0%	14,307— 1.0%	$ 1,569—11.0%
Insurance, licenses, and taxes (except on profit)	23,956— 1.5%	20,998— 1.5%	$ 2,958—14.1%
Repairs	4,831— 0.3%	4,614— 0.3%	$ 217— 4.7%
Advertising	25,439— 1.6%	24,613— 1.7%	$ 826— 3.4%
Depreciation (except on buildings)	9,670— 0.6%	8,213— 0.6%	$ 1,457—17.7%
Supplies	7,881— 0.5%	7,410— 0.5%	$ 471— 6.4%
Headquarters fee	46,357— 2.9%	39,544— 2.7%	$ 6,813—17.2%
All other direct store expenses	27,000— 1.6%	24,366— 1.7%	$ 2,634—10.8%
Total expenses	$ 382,530— 23.8%	$ 342,973— 23.8%	$ 39,557—11.5%
Net profit (before taxes)	$ 67,559— 4.2%	$ 63,580— 4.4%	$ 3,979— 6.3%
Warehouse fee*	$ 24,729— 2.6%	$ 20,297— 2.4%	$ 4,432—21.8%
As a percent of cost of goods sold	3.7%	3.3%	
Value of inventory at cost and as a percent of sales			
Prescription	$ 27,491— 9.6%	$ 25,519— 9.6%	$ 1,972— 7.7%
Other	199,624— 15.1%	184,199— 15.6%	$ 15,425— 8.4%
Total	$ 227,115— 14.1%	$ 209,718— 14.5%	$ 17,397— 8.3%
Annual rate of turnover of inventory	5.2 times	5.0 times	
Size of area*	sq. ft.	sq. ft.	
Prescription	403— 4.6%	370— 4.5%	33— 8.9%
Other	8,277— 95.4%	7,891— 95.5%	386— 4.9%
Total	8,680—100.0%	8,261—100.0%	419— 5.1%
Sales per square foot*			
Prescription	$662.14	$674.55	$ 12.41— 1.8%
Other	147.06	136.34	$ 10.72— 7.9%
Total	170.98	160.45	$ 10.53— 6.6%
Sales per dollar invested in inventory			
Prescription	$10.47	$10.37	$ 0.10— 1.0%
Other	6.61	6.40	$ 0.21— 3.3%
Net profit per dollar invested in inventory	$0.297	$0.303	$ 0.006— 2.0%
Number of prescriptions dispensed			
New	23,639— 53.9%	23,431— 53.1%	208— 0.9%
Renewed	20,238— 46.1%	20,713— 46.9%	475— 2.3%
Total	43,877—100.0%	44,144—100.0%	267— 0.6%
Prescription charge	$6.56	$5.99	$ 0.57— 9.5%
Number of hours per week			
Pharmacy was open	84 hours	83 hours	1— 1.2%
Worked by manager	46 hours	46 hours	no change
Worked by employed pharmacist(s)	81 hours	84 hours	3— 3.6%

*Based on averages of pharmacies that reported all data

Sales and Expenses

The primary objective of pharmacy management is to increase sales volume. However, it is also necessary to control operating expenses and merchandise costs so that profit can be maximized and return on investment is adequate. If efficient control over operating costs is not exercised, greater sales volume by itself is no guarantee of a profitable operation.

Chart 1 and Table 2 illustrate how selected operating statistics vary with growing sales volume. It should be recognized that a pharmacy's financial data may be influenced by the characteristics of the individual unit, which have an impact on that information. NACDS-LILLY DIGEST figures are adjusted to exclude refunds, returns, allowances to customers, and sales tax collections. Figures for the cost of goods sold are adjusted for discounts received, warehouse fees, and freight charges.

As seen in Chart 1, which is a graphic representation of the statistics in Table 2, both total expenses and gross margin decrease as percents of sales as sales volume grows. Total expenses decline at a faster rate than does gross margin and thereby produces a greater net profit for units in the higher sales categories. Net profit (gross margin less total expenses) is shown in the shaded area.

Table 2 indicates that larger operations were more profitable than smaller ones, exhibiting "economies of scale" in the various operating costs through effective management control.

Chain pharmacy units with sales volume below $500,000 may represent diverse types of operations. This category may include newly opened outlets and or stores that are in the early stages of growth and have yet to reach full potential. Established pharmacies in this group could be experiencing losses due to changing markets or competition; therefore, the future prospects for all these units should be carefully appraised and evaluated with an awareness of local conditions.

Gross Margin

Table 2 also indicates that, as total sales rise, gross margin falls from 34.1 percent in the lowest sales range (under $500,000) to 26.0 percent when sales exceed $3,000,000. One of the contributing factors to the decline in gross margin may be the gradual reduction in the ratio of prescription sales to total sales as volume increases. As can be seen in Table 2, prescription income represents 43.4 percent of sales in the category with revenue below $500,000 and only 11.4 percent in the group with sales over $3,000,000. Pharmacy outlets with the larger volume also report the highest inventory turnover rates. Faster turnover usually results in better cash flow, less dependence on debt, and less storage space allocation. It would appear that in operations with greater sales volume, management is allowing more leeway to accept lower-margin sales where inventory turnover is sufficiently high and expenses are adequately controlled, as long as the established goals set for return on investment are achieved.

Expenses

Total expenses drop from 35.5 percent for units with sales under $500,000 to 19.7 percent for stores reporting over $3,000,000 in annual income (Table 2). As a result, net profit is highest in the largest sales group—6.3 percent of total sales before taxes.

Primarily responsible for the downward trend in total expenses is the total wage package (manager's salary plus employees' wages). As sales rise, increased employee productivity is demonstrated by a steady decrease in the total wage package, from 17.3 to 9.5 percent of sales.

Effective management control is also exhibited by the overall reduction in miscellaneous operating expenses (all costs except salaries, wages, and rent), which dropped from 13.4 percent in the lowest sales category to 8.0 percent in the highest. It is important to note that several of these expenses are fixed or semivariable and normally would be expected to decrease percentagewise as sales rise. Nonetheless, this relationship points out the need for constant monitoring of the various items comprised in miscellaneous expenses, since, collectively, they have a definite impact on net profit.

Inventory Control

Managerial skill is measured not only by the ability to maximize sales but also by effective utilization of assets of the pharmacy to obtain the greatest

CHART 1

Selected operating statistics according to sales volume

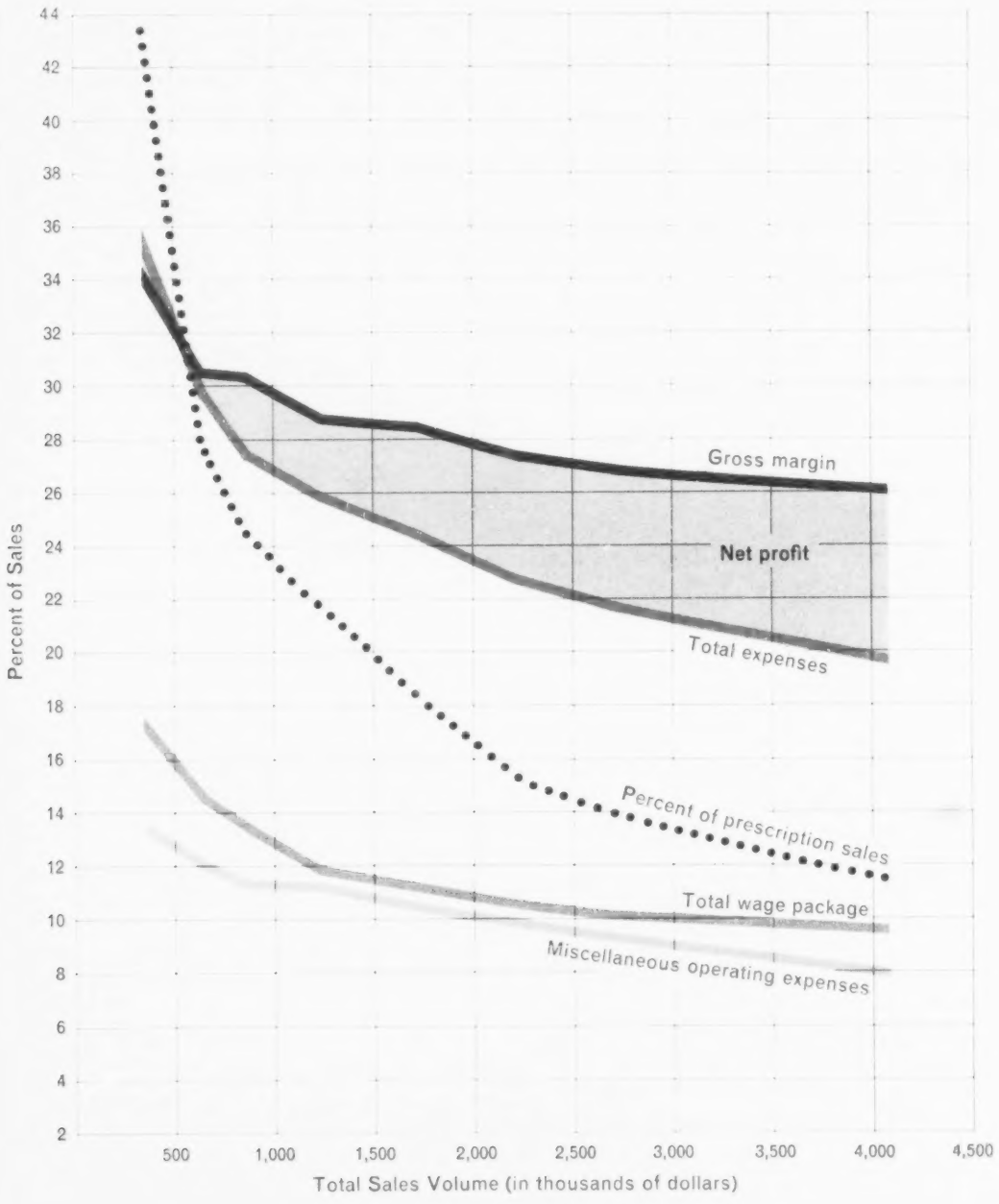


TABLE 2

Chain operations according to sales volume

AVERAGES PER PHARMACY	Total Sales under $500,000 (57 Pharmacies)	Total Sales $500,000 to $750,000 (109 Pharmacies)	Total Sales $750,000 to $1,000,000 (187 Pharmacies)
Sales			
Prescription	$155,890— 43.4%	$182,925— 27.9%	$212,007— 24.3%
Other	203,581— 56.6%	471,917— 72.1%	661,469— 75.7%
Total	$359,471—100.0%	$654,842—100.0%	$873,476—100.0%
Cost of goods sold	236,901— 65.9%	455,337— 69.5%	609,149— 69.7%
Gross margin	$122,570— 34.1%	$199,505— 30.5%	$264,327— 30.3%
Expenses			
Manager's salary	$ 21,643— 6.0%	$ 21,513— 3.3%	$ 22,283— 2.6%
Employees' wages	40,535— 11.3%	73,442— 11.2%	93,089— 10.7%
Rent	17,190— 4.8%	21,737— 3.3%	23,817— 2.7%
Utilities (including telephone)	4,369— 1.2%	9,418— 1.4%	10,347— 1.2%
Insurance, licenses, and taxes (except on profit)	6,996— 1.9%	13,604— 2.1%	16,324— 1.9%
Repairs	1,034— 0.3%	2,242— 0.3%	2,584— 0.3%
Advertising	5,209— 1.5%	9,907— 1.5%	15,170— 1.7%
Depreciation (except on buildings)	3,138— 0.9%	4,950— 0.8%	4,713— 0.5%
Supplies	2,434— 0.7%	3,782— 0.6%	4,840— 0.6%
Headquarters fee	12,700— 3.5%	24,769— 3.8%	32,869— 3.8%
All other direct store expenses	12,361— 3.4%	9,717— 1.5%	12,303— 1.4%
Total expenses	$127,609— 35.5%	$195,081— 29.8%	$238,339— 27.4%
Net profit (before taxes)	($ 5,039— 1.4%)	$ 4,424— 0.7%	$ 25,988— 2.9%
Value of inventory at cost and as a percent of sales			
Prescription	$ 21,318— 13.7%	$ 24,776— 13.5%	$ 23,893— 11.3%
Other	70,507— 34.6%	113,937— 24.1%	127,102— 19.2%
Total	$ 91,825— 25.5%	$138,713— 21.2%	$150,995— 17.3%
Annual rate of turnover of inventory	2.6 times	3.4 times	4.1 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	391 $410.51	358 $505.37	363 $576.86
Other	2,385 86.90	5,389 87.65	6,199 106.72
Total	2,776 132.46	5,747 113.69	6,562 132.74
Sales per dollar invested in inventory			
Prescription	$7.31	$7.38	$8.87
Other	2.89	4.14	5.20
Net profit per dollar invested in inventory	($0.050)	$0.030	$0.170
Number of prescriptions dispensed			
New	10,999— 49.6%	14,161— 52.1%	16,627— 52.4%
Renewed	11,190— 50.4%	12,995— 47.9%	15,133— 47.6%
Total	22,189—100.0%	27,156—100.0%	31,760—100.0%
Prescription charge	$7.03	$6.74	$6.68
Number of hours per week			
Pharmacy was open	68 hours	79 hours	80 hours
Worked by proprietor	46 hours	47 hours	46 hours
Worked by employed pharmacist(s)	35 hours	63 hours	66 hours

*Based on averages of pharmacies that reported on data

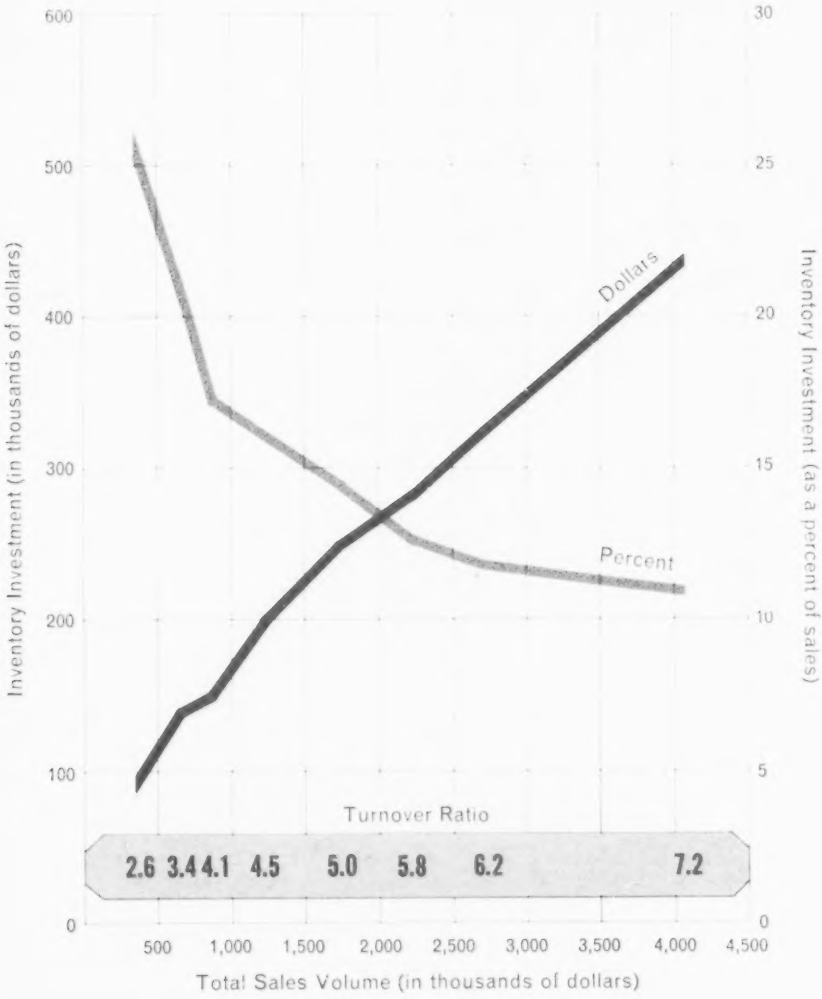
Total Sales $1,000,000 to $1,500,000 (368 Pharmacies)	Total Sales $1,500,000 to $2,000,000 (251 Pharmacies)	Total Sales $2,000,000 to $2,500,000 (139 Pharmacies)	Total Sales $2,500,000 to $3,000,000 (92 Pharmacies)	Total Sales over $3,000,000 (90 Pharmacies)
$ 270,578– 21.8%	$ 318,494– 18.3%	$ 340,503– 15.2%	$ 378,296– 13.9%	$ 465,942– 11.4%
968,650– 78.2%	1,418,141– 81.7%	1,898,837– 84.8%	2,348,868– 86.1%	3,625,499– 88.6%
$1,239,228–100.0%	$1,736,635–100.0%	$2,239,340–100.0%	$2,727,164–100.0%	$4,091,441–100.0%
882,097– 71.2%	1,243,557– 71.6%	1,624,871– 72.6%	1,993,931– 73.1%	3,027,563– 74.0%
$ 357,131– 28.8%	$ 493,078– 28.4%	$ 614,469– 27.4%	$ 733,233– 26.9%	$1,063,878– 26.0%
$ 24,492– 2.0%	$ 28,125– 1.6%	$ 30,006– 1.3%	$ 33,964– 1.2%	$ 35,221– 0.9%
121,612– 9.8%	165,703– 9.5%	204,732– 9.1%	241,088– 8.8%	350,519– 8.6%
36,417– 2.9%	49,470– 2.8%	57,089– 2.5%	69,384– 2.5%	88,318– 2.2%
13,635– 1.1%	17,618– 1.0%	21,104– 0.9%	25,836– 1.0%	28,518– 0.7%
19,688– 1.6%	23,978– 1.4%	31,555– 1.4%	39,827– 1.5%	52,520– 1.3%
3,921– 0.3%	4,915– 0.3%	6,410– 0.3%	9,112– 0.3%	11,712– 0.3%
23,331– 1.9%	29,764– 1.7%	32,360– 1.5%	33,002– 1.2%	56,541– 1.4%
7,524– 0.6%	10,134– 0.6%	14,070– 0.6%	17,542– 0.7%	22,454– 0.5%
6,481– 0.5%	9,098– 0.6%	10,815– 0.5%	13,132– 0.5%	15,049– 0.3%
43,300– 3.5%	51,591– 3.0%	59,235– 2.7%	64,889– 2.4%	80,916– 2.0%
20,398– 1.7%	31,386– 1.8%	41,998– 1.9%	43,724– 1.6%	62,251– 1.5%
11.2%	10.4%	9.8%	9.2%	8.0%
$ 320,799– 25.9%	$ 421,782– 24.3%	$ 509,374– 22.7%	$ 591,500– 21.7%	$ 804,019– 19.7%
$ 36,332– 2.9%	$ 71,296– 4.1%	$ 105,095– 4.7%	$ 141,733– 5.2%	$ 259,859– 6.3%
$ 26,988– 10.0%	$ 28,629– 9.0%	$ 30,110– 8.8%	$ 30,936– 8.2%	$ 33,487– 7.2%
172,115– 17.8%	222,548– 15.7%	253,775– 13.4%	293,730– 12.5%	404,573– 11.2%
$ 199,103– 16.1%	$ 251,177– 14.5%	$ 283,885– 12.7%	$ 324,666– 11.9%	$ 438,060– 10.7%
4.5 times	5.0 times	5.8 times	6.2 times	7.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
374 $663.03	460 $645.61	478 $734.76	423 $928.92	459 $1,027.43
7,849 125.20	10,125 141.01	11,151 168.98	12,842 180.88	13,972 271.16
8,223 149.67	10,585 162.92	11,629 192.23	13,265 204.74	14,431 295.20
$10.03	$11.12	$11.31	$12.23	$13.91
5.63	6.37	7.48	8.00	8.96
$0.180	$0.280	$0.370	$0.440	$0.590
22,067– 53.2%	26,235– 53.9%	28,869– 55.0%	32,747– 55.6%	39,491– 55.8%
19,414– 46.8%	22,473– 46.1%	23,597– 45.0%	26,098– 44.4%	31,301– 44.2%
41,481–100.0%	48,708–100.0%	52,466–100.0%	58,845–100.0%	70,792–100.0%
$6.52	$6.54	$6.49	$6.43	$6.58
82 hours	86 hours	89 hours	89 hours	89 hours
46 hours	46 hours	46 hours	46 hours	45 hours
72 hours	90 hours	98 hours	103 hours	107 hours

return on investment. Inventory represents the largest dollar asset that is directly affected by daily management decisions. The relationship between inventory and sales volume is illustrated in Chart 2. As sales rise, inventory dollars increase (from about $92,000 in the lowest sales category to just over $438,000 in the highest), although, percentagewise, inventory investment declines from 25.5 to 10.7 percent of sales. Generally, the downward movement of inventory as a percent of sales reflects greater efficiencies and productivity. Inventory turnover and net profit per dollar of inventory increase as sales volume expands, and both indices peak with sales over $3,000,000. This category has the highest turnover ratio at 7.2 times and the highest net profit per dollar of inventory at 59 cents. Overall, inventory turnover ranged from 2.6 times in stores with the lowest volume to 7.2 times in those with the highest.

Net profit per dollar of inventory moved from a loss in pharmacies with sales under $500,000 to 59 cents in the largest units. Changes in accounting procedures for inventory valuation were not taken into consideration in this report; nonetheless, the reported trends should be representative of current practices.

CHART 2

Inventory investment according to sales volume



Prescription Department Review

The 1980 NACDS-Lilly Digest pharmacies reported a smaller average number of prescriptions dispensed during 1979 in comparison with the previous year's figure (Chart 3). This lower level of prescription activity was accompanied by a higher average prescription charge; therefore, total prescription revenue accounted for an actual rise of 8.8 percent in prescription dollars over the 1978 volume. As a share of total sales, however, prescription income fell 0.4 percent. The average prescription charge can be influenced by changes in the product mix, the number of doses dispensed, higher merchandise costs, and greater dispensing costs; consequently, it is impossible to cite the rising "average prescription charge" as an indication of higher prescription prices.

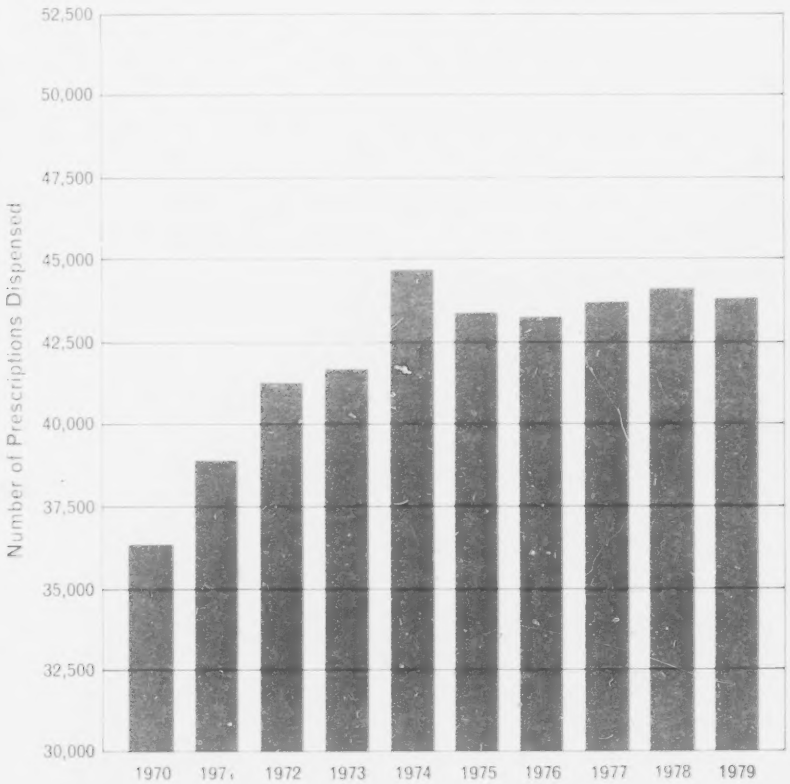
The impact of daily prescription activity on operating statistics is illustrated in Tables 3 and 4, and the relationship of daily prescription activity, annual sales volume, and employed pharmacist hours is exhibited in Chart 4 and Table 3. The larger-volume operations dispense more prescriptions and, as expected, show a greater number of employed pharmacist hours. These units are able to generate more than six times as many prescriptions with about 50 percent more pharmacist hours as compared with stores in the lowest sales category. This greater productivity may be achieved by the use of nonlicensed personnel and or mechanical aids in the prescription area to deal with the more routine tasks.

The relationship between various operating statistics and daily prescription activity is presented in Chart 5 and Table 3. Since a direct correlation exists between sales volume and daily prescription activity, the overall operating trends are similar to those depicted in Chart 1 on page 7. With more prescription activity, gross margin and total expenses fall as percentages of sales, and net profit (before taxes) rises. Because total expenses tend to decline at a faster rate than does gross margin, net profit shows an uptrend in those units with greater prescription demand. As seen in Table 3, when prescription sales increase, the average prescription charge is lower.

The dollar investment in prescription inventory is greater for units dispensing over 200 prescriptions daily ($38,889) than for those filling fewer than 50 prescriptions ($17,259). One measure of prescription inventory utilization and sales productivity is evident when prescription sales per dollar of

CHART 3

Total number of prescriptions dispensed



prescription inventory are studied. The trends for these two indices illustrate (Chart 5 and Table 3) a greater sales dollar return with growing daily prescription activity. The prescription sales per dollar invested in inventory advance from $5.12 to $14.33 as prescription demand increases.

Table 4 separates chain units according to prescription revenue as a percent of sales. In contrast to Table 3, as the ratio of prescription revenue to total income increases, total sales and square footage decline. Pharmacies that do more prescription business also achieve, percentagewise, a larger gross margin, higher total expenses, and a greater net profit before taxes. Although total expenses are higher, they do not rise as rapidly as gross margin, which results in a larger net profit for prescription-oriented units. The rise in total expenses as prescription income improves is accompanied by a larger total wage package as a percent of sales; this trend indicates a reliance on professional personnel needed to handle expanded prescription activity.

The prescription charge varies among stores whose prescription income was less than 50 percent of sales but tends to become higher when prescription income advances as a percent of sales. The total number of hours the pharmacy was open per week and the hours worked by employed pharmacists were lowest in the highest prescription volume category.

An interesting aspect of pharmacist productivity is found when the data in Table 3 are used to determine the number of prescriptions dispensed per employed pharmacist hour as prescription activity rises. To calculate this ratio, it is assumed that, as the prescription workload becomes heavier, the amount of time the manager spends in the prescription area also increases. Prescriptions dispensed per employed pharmacist hour climbed sharply—from 3.1 in units with the lowest prescription income to 12.9 in the operations reporting highest prescription sales. The ratio declines in several categories when compared with the 1978 figures. One explanation for the reduction in productivity in the larger-prescription-volume units may be that the number of employed pharmacist hours worked per week did not increase proportionately with the rise in prescription activity.

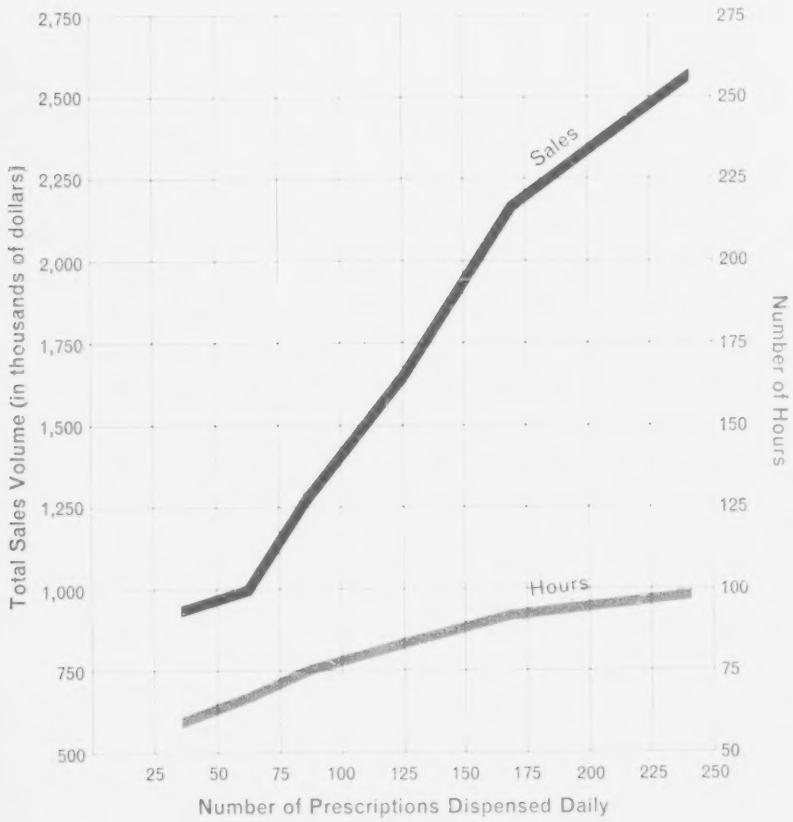


CHART 4

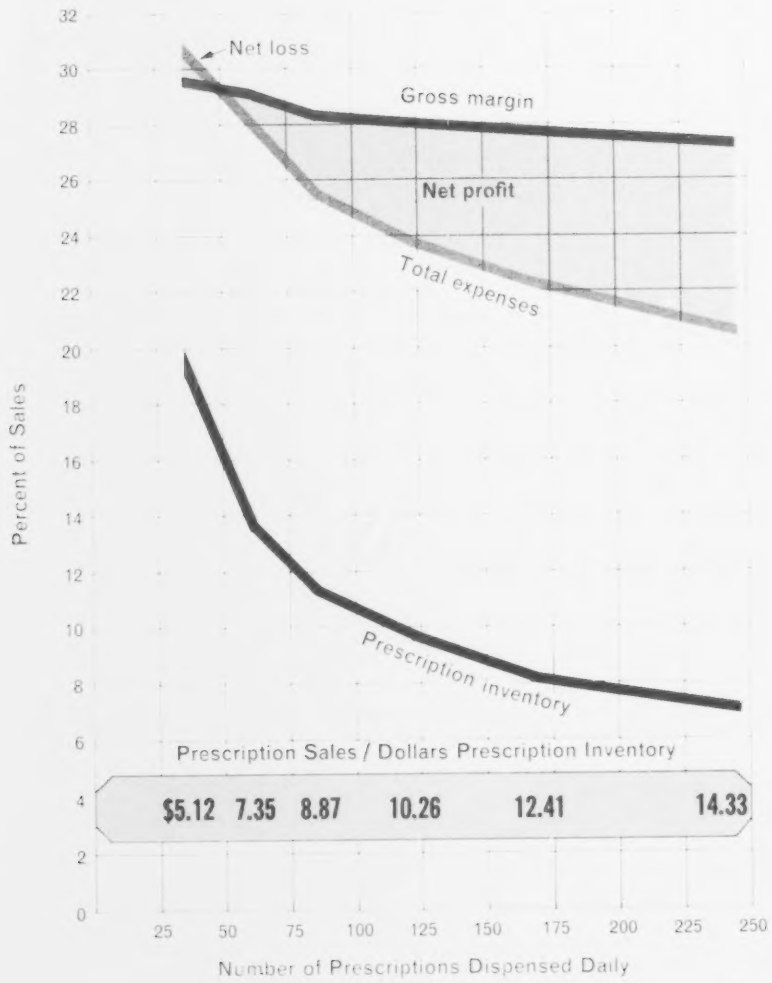
Total sales volume and employed pharmacist hours according to daily prescription activity

TABLE 3 Chain operations according to number of prescriptions dispensed daily

AVERAGES PER PHARMACY	Under 50 Prescriptions Daily (111 Pharmacies)	50 to 75 Prescriptions Daily (187 Pharmacies)	75 to 100 Prescriptions Daily (232 Pharmacies)	100 to 150 Prescriptions Daily (404 Pharmacies)
Sales				
Prescription	$ 88,386— 9.4%	$155,794— 15.7%	$ 211,931— 16.6%	$ 297,627— 18.2%
Other	847,323— 90.6%	834,731— 84.3%	1,066,570— 83.4%	1,339,771— 81.8%
Total	$935,709—100.0%	$990,525—100.0%	$1,278,501—100.0%	$1,637,398—100.0%
Cost of goods sold	659,250— 70.5%	702,439— 70.9%	917,219— 71.7%	1,179,402— 72.0%
Gross margin	$276,459— 29.5%	$288,086— 29.1%	$ 361,282— 28.3%	$ 457,996— 28.0%
Expenses				
Manager's salary	$ 22,580— 2.4%	$ 22,153— 2.2%	$ 25,198— 2.0%	$ 26,995— 1.6%
Employees' wages	107,117— 11.4%	106,410— 10.7%	126,374— 9.9%	154,289— 9.4%
Rent	36,857— 3.9%	32,027— 3.2%	36,605— 2.9%	42,772— 2.6%
Utilities (including telephone)	12,842— 1.4%	12,559— 1.3%	14,123— 1.1%	16,184— 1.0%
Insurance, licenses, and taxes (except on profit)	21,405— 2.3%	18,548— 1.9%	19,803— 1.5%	24,435— 1.5%
Repairs	3,457— 0.4%	3,313— 0.4%	4,383— 0.3%	5,251— 0.3%
Advertising	17,627— 1.9%	17,960— 1.8%	21,972— 1.7%	25,793— 1.6%
Depreciation (except on buildings)	9,123— 1.0%	7,208— 0.7%	8,498— 0.7%	9,295— 0.6%
Supplies	5,946— 0.6%	4,882— 0.5%	5,877— 0.5%	7,855— 0.5%
Headquarters fee	29,718— 3.2%	32,904— 3.3%	40,464— 3.2%	49,480— 3.0%
All other direct store expenses	18,969— 2.0%	19,749— 2.0%	21,775— 1.7%	25,918— 1.6%
	12.8%	11.9%	10.7%	10.1%
Total expenses	$285,641— 30.5%	$277,713— 28.0%	$ 325,072— 25.5%	$ 388,267— 23.7%
Net profit (before taxes)	($ 9,182— 1.0%)	$ 10,373— 1.1%	$ 36,210— 2.8%	$ 69,729— 4.3%
Value of inventory at cost and as a percent of sales				
Prescription	$ 17,259— 19.5%	$ 21,206— 13.6%	$ 23,887— 11.3%	$ 29,017— 9.7%
Other	152,499— 18.0%	152,031— 18.2%	172,541— 16.2%	197,799— 14.8%
Total	$169,758— 18.1%	$173,237— 17.5%	$ 196,428— 15.4%	$ 226,816— 13.9%
Annual rate of turnover of inventory	3.9 times	4.1 times	4.8 times	5.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	360 $245.69	367 $425.81	411 $515.76	392 $764.77
Other	7,214 118.07	7,280 109.02	7,853 124.86	8,433 143.78
Total	7,574 134.44	7,647 143.33	8,264 179.47	8,825 259.38
Sales per dollar invested in inventory				
Prescription	$5.12	$7.35	$8.87	$10.26
Other	5.56	5.49	6.18	6.77
Net profit per dollar invested in inventory	($0.054)	$0.060	$0.184	$0.307
Number of prescriptions dispensed				
New	7,286— 55.3%	12,272— 54.0%	16,882— 53.8%	24,091— 53.9%
Renewed	5,900— 44.7%	10,444— 46.0%	14,502— 46.2%	20,640— 46.1%
Total	13,186—100.0%	22,716—100.0%	31,384—100.0%	44,731—100.0%
Prescription charge	$6.70	$6.86	$6.75	$6.65
Number of hours per week				
Pharmacy was open	78 hours	79 hours	82 hours	85 hours
Worked by manager	46 hours	46 hours	47 hours	46 hours
Worked by employed pharmacist(s)	60 hours	67 hours	75 hours	83 hours

*Based on averages of pharmacies that reported all data

150 to 200 Prescriptions Daily (227 Pharmacies)		Over 200 Prescriptions Daily (132 Pharmacies)	
$ 397,162	18.3%	$ 557,146	21.7%
1,768,784	81.7%	2,008,411	78.3%
$2,165,946	100.0%	$2,565,557	100.0%
1,566,057	72.3%	1,865,673	72.7%
$ 599,889	27.7%	$ 699,884	27.3%
$ 29,857	1.4%	$ 31,100	1.2%
192,992	8.9%	219,720	8.6%
53,882	2.5%	59,131	2.3%
19,997	0.9%	18,175	0.7%
29,042	1.3%	30,846	1.2%
5,981	0.3%	5,662	0.2%
30,881	1.4%	35,260	1.5%
12,316	0.6%	12,271	0.5%
10,537	0.5%	12,794	0.5%
58,456	2.7%	59,404	2.3%
37,146	1.7%	39,072	1.5%
$ 481,087	22.2%	$ 526,435	20.5%
$ 118,802	5.5%	$ 173,449	6.8%
$ 32,014	8.1%	$ 38,889	7.0%
247,323	14.0%	277,831	13.8%
$ 279,337	12.9%	$ 316,720	12.3%
5.8 times		6.1 times	
sq. ft.		sq. ft.	
434	$929.31	532	$1,100.19
9,859	183.25	9,882	248.49
10,293	348.66	10,414	524.52
$12.41		$14.33	
7.15		7.23	
$0.425		$0.548	
33,488	54.2%	47,049	53.4%
28,345	45.8%	41,075	46.6%
61,833	100.0%	88,124	100.0%
$6.42		$6.32	
87 hours		86 hours	
45 hours		45 hours	
92 hours		98 hours	



CHART

5

Selected operating statistics according to daily prescription activity

TABLE 4

Chain operations according to prescription revenue

AVERAGES PER PHARMACY	Prescription Income under 10 Percent of Sales (145 Pharmacies)		Prescription Income 10 to 20 Percent of Sales (575 Pharmacies)	
Sales				
Prescription	$ 183,575	7.7%	$ 282,252	15.2%
Other	2,207,362	92.3%	1,574,562	84.8%
Total	$2,390,937	100.0%	$1,856,814	100.0%
Cost of goods sold	1,762,252	73.7%	1,344,095	72.4%
Gross margin	$ 628,685	26.3%	$ 512,719	27.6%
Expenses				
Manager's salary	$ 28,539	1.2%	$ 28,264	1.5%
Employees' wages	212,088	8.9%	181,786	9.8%
Rent	67,257	2.8%	49,428	2.7%
Utilities (including telephone)	21,816	0.9%	19,151	1.0%
Insurance, licenses, and taxes (except on profit)	33,957	1.4%	28,943	1.6%
Repairs	8,193	0.3%	5,750	0.3%
Advertising	37,095	1.6%	27,622	1.5%
Depreciation (except on buildings)	19,388	0.8%	11,090	0.6%
Supplies	10,003	0.4%	9,128	0.5%
Headquarters fee	57,090	2.4%	49,317	2.7%
All other direct store expenses	40,152	1.7%	34,392	1.8%
		9.5%		10.0%
Total expenses	$ 535,578	22.4%	$ 444,871	24.0%
Net profit (before taxes)	$ 93,107	3.9%	$ 67,848	3.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 22,115	12.0%	$ 26,743	9.5%
Other	291,213	13.2%	220,646	14.0%
Total	$ 313,328	13.1%	$ 247,389	13.3%
Annual rate of turnover of inventory	5.8 times		5.4 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	426	$406.08	418	$675.24
Other	11,801	178.23	9,486	165.99
Total	12,227	186.17	9,904	187.48
Sales per dollar invested in inventory				
Prescription	$8.30		$10.55	
Other	7.58		7.14	
Net profit per dollar invested in inventory	$0.297		$0.274	
Number of prescriptions dispensed				
New	16,438	57.3%	23,378	55.0%
Renewed	12,269	42.7%	19,119	45.0%
Total	28,707	100.0%	42,497	100.0%
Prescription charge	$6.39		$6.64	
Number of hours per week				
Pharmacy was open	84 hours		87 hours	
Worked by manager	46 hours		46 hours	
Worked by employed pharmacist(s)	88 hours		90 hours	

*Based on averages of pharmacies that reported all data

Prescription Income 20 to 30 Percent of Sales (364 Pharmacies)	Prescription Income 30 to 40 Percent of Sales (149 Pharmacies)	Prescription Income 40 to 50 Percent of Sales (21 Pharmacies)	Prescription Income over 50 Percent of Sales (39 Pharmacies)
$ 302,974— 24.4%	$ 361,656— 33.8%	$414,290— 43.3%	$307,781— 71.7%
939,641— 75.6%	709,346— 66.2%	543,391— 56.7%	121,456— 28.3%
$1,242,615—100.0%	$1,071,002—100.0%	$957,681—100.0%	$429,237—100.0%
878,969— 70.7%	749,462— 70.0%	666,390— 69.6%	266,563— 62.1%
$ 363,646— 29.3%	$ 321,540— 30.0%	$291,291— 30.4%	$162,674— 37.9%
$ 24,265— 2.0%	$ 24,414— 2.3%	$ 23,205— 2.4%	$ 23,997— 5.6%
118,038— 9.5%	96,756— 9.0%	96,402— 10.1%	40,157— 9.4%
33,089— 2.7%	29,851— 2.8%	21,607— 2.3%	19,731— 4.6%
12,456— 1.0%	10,147— 0.9%	9,170— 0.9%	2,919— 0.7%
18,436— 1.5%	14,624— 1.4%	14,415— 1.5%	5,567— 1.3%
3,441— 0.3%	2,955— 0.3%	2,118— 0.2%	388— 0.1%
21,877— 1.8%	21,240— 2.0%	17,892— 1.9%	3,283— 0.8%
6,493— 0.5%	5,269— 0.5%	4,066— 0.4%	2,076— 0.5%
6,505— 0.5%	6,046— 0.5%	5,372— 0.6%	2,823— 0.6%
42,994— 3.4%	41,713— 3.9%	38,500— 4.0%	16,181— 3.7%
8,098— 1.4%	11,990— 1.1%	15,365— 1.6%	15,780— 3.7%
10.4%	10.6%	11.1%	11.4%
$ 303,692— 24.6%	$ 265,005— 24.7%	$248,112— 25.9%	$132,902— 31.0%
$ 57,954— 4.7%	$ 56,535— 5.3%	$ 43,179— 4.5%	$ 29,772— 6.9%
$ 28,018— 9.2%	$ 30,931— 8.6%	$ 35,081— 8.5%	$ 36,369— 11.8%
168,920— 18.0%	155,434— 21.9%	129,716— 23.9%	42,202— 34.7%
$ 196,938— 15.8%	$ 186,365— 17.4%	$164,797— 17.2%	$ 78,571— 18.3%
4.6 times	4.2 times	4.0 times	3.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
372 $752.48	366 $867.00	397 $932.30	519 $621.42
6,938 125.73	6,224 100.89	5,168 95.37	845 147.69
7,310 157.61	6,590 143.44	5,565 155.10	1,364 327.98
$10.81	$11.69	$11.81	$8.46
5.56	4.56	4.19	2.88
$0.294	$0.303	$0.262	$0.379
24,754— 53.3%	28,617— 51.8%	32,004— 50.0%	20,325— 47.7%
21,666— 46.7%	26,625— 48.2%	31,994— 50.0%	22,291— 52.3%
46,420—100.0%	55,242—100.0%	63,998—100.0%	42,616—100.0%
$6.53	$6.55	$6.47	$7.22
83 hours	81 hours	76 hours	64 hours
46 hours	46 hours	47 hours	45 hours
76 hours	67 hours	64 hours	33 hours

Ten-Year Trends in Pharmacy Operations

Trends and changes in the average operating statistics of the chain drugstore industry are depicted in Charts 6 and 7 and Tables 5 and 6. By combining their knowledge of local market conditions and their observations of past performance limitations and trends, pharmacy managers can project future key operating statistics for a particular store.

Sales, Expenses, Inventory Levels

During 1979, the annual sales volume of the typical NACDS-LILLY DIGEST unit continued its upward trend for the fourth consecutive year (Chart 6). The impressive gain in total sales for 1979 established a new record—over $163,000. This trend, it is hoped, will be demonstrated again in future editions of the DIGEST.

Net profit returned to the 1976 and 1977 level of 4.2 percent of sales. Although this figure has fluctuated frequently in past years, the overall trend has been downward.

The cost of goods sold and rental expense remained essentially unchanged as percentages of sales over the ten-year period (Table 5). Dollarwise, higher total expenses accounted for the overall decline in net profit. Within total expenses, manager's salary and employees' wages appeared to fluctuate over the decade; however, it was the miscellaneous operating expenses that contributed most to the rise in total expenses (miscellaneous operating expenses represent all costs incurred except for manager's salary, em-

CHART 6 Sales growth—1970-1979

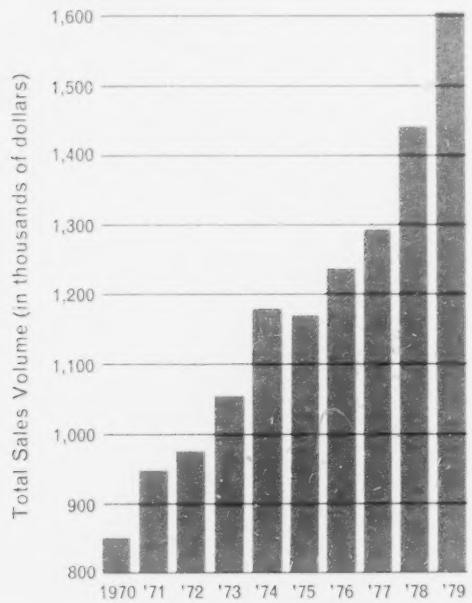
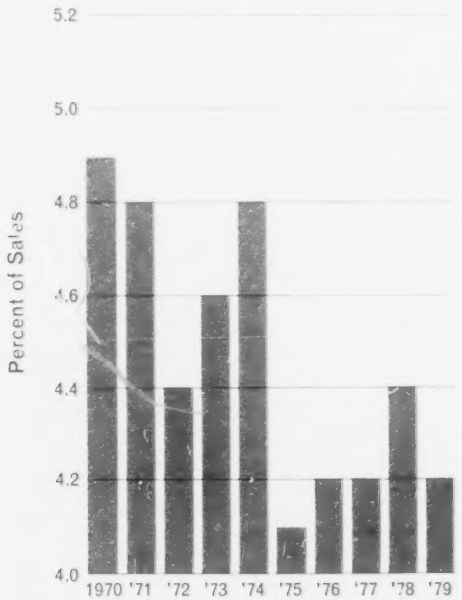


CHART 7 Net profit percentage—1970-1979



ployees' wages, and rent). It was interesting to note that, during the past three years, the miscellaneous-operating-expense figure, as a percent of sales, appears to be slowing in its growth rate and was unchanged from that for 1978. Nonetheless, it is important to recognize that control of each of the relatively small individual costs that compose this category will help improve net profit.

Inventory investment had not demonstrated any marked tendency as a percent of sales prior to 1975 but in 1979 declined from 14.5 to 14.1 percent of sales. This decrease, for the second consecutive year, was most prominent in front-end merchandise, which went down from 15.6 to 15.1 percent of sales (Table 1).

Table 6 illustrates trends in the prescription department and shows a drop in the average number of prescriptions dispensed in the typical chain unit. Prescription sales increased 8.8 percent over the 1978 volume, owing to a 9.5 percent rise in the average prescription charge. The annual growth rate of the prescription department was greater than the 8.2 percent rate recorded during 1978; however, its share of sales was 17.9 percent in comparison with 18.3 percent reported in 1978. New prescriptions reached a new record of 53.9 percent of the total prescriptions filled—the largest share in DIGEST history. The productivity of prescription merchandise (sales per dollar of prescription inventory) also attained an all-time high of $10.47. Prescription inventory halted its down-

TABLE 5 Averages of pharmacy operations—1970-1979 (based on all pharmacies reporting)

EXPRESSED IN DOLLARS

Year	Sales	Cost of Goods Sold	Gross Margin	Managers Salary	Employees Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1970	$ 845,343	$ 606,599	$238,744	$21,746	$ 80,941	$24,076	$ 70,227	$196,990	$41,754	$123,136
1971	933,611	669,178	264,433	18,852	93,194	26,835	80,515	219,396	45,037	134,029
1972	979,285	703,865	275,420	18,635	99,248	27,400	86,984	232,267	43,153	139,321
1973	1,057,680	759,102	298,578	19,373	103,024	30,244	97,382	250,023	48,555	154,338
1974	1,182,634	849,821	332,813	24,178	110,880	32,588	108,621	276,267	56,546	174,582
1975	1,173,318	842,774	330,544	24,367	114,412	32,504	110,946	282,229	48,315	164,487
1976	1,238,846	894,485	344,361	22,581	115,968	32,986	120,569	292,104	52,257	184,852
1977	1,295,213	929,644	365,569	22,789	124,534	34,769	129,484	311,576	53,993	195,234
1978	1,443,299	1,036,746	406,553	24,187	137,166	37,555	144,065	342,973	63,580	209,716
1979	1,606,756	1,156,667	450,089	26,515	151,781	43,224	161,010	382,530	67,559	227,115

EXPRESSED IN PERCENTAGE OF SALES

Year	Sales	Cost of Goods Sold	Gross Margin	Managers Salary	Employees Wages	Rent	Miscellaneous Operating Expenses	Total Expenses	Net Profit	Inventory at Cost
1970	100.0	71.8	28.2	2.6	9.6	2.8	8.3	23.3	4.9	14.6
1971	100.0	71.7	28.3	2.3	10.0	2.9	8.6	23.5	4.8	14.4
1972	100.0	71.9	28.1	1.9	10.1	2.8	8.9	23.7	4.4	14.2
1973	100.0	71.8	28.2	1.8	9.7	2.9	9.2	23.6	4.6	14.6
1974	100.0	71.9	28.1	2.0	9.4	2.8	9.1	23.3	4.8	14.8
1975	100.0	71.8	28.2	2.1	9.8	2.8	9.4	24.1	4.1	14.0
1976	100.0	72.2	27.8	1.8	9.4	2.7	9.7	23.6	4.2	14.9
1977	100.0	71.8	28.2	1.8	9.6	2.7	9.9	24.0	4.2	15.1
1978	100.0	71.8	28.2	1.7	9.5	2.6	10.0	23.8	4.4	14.5
1979	100.0	72.0	28.0	1.7	9.4	2.7	10.0	23.8	4.2	14.1

ward trend and remained unchanged from last year at 9.6 percent of sales. Nonprescription stock productivity has been inconsistent since 1970; however, in 1979 an increase in nonprescription sales per dollar of inventory was observed for the second consecutive year (up 21 cents, from $6.40 to $6.61).

Most indicators suggest a positive trend in prescription area performance for 1979.

The total size of the average chain drugstore expanded somewhat, from 8,261 square feet to 8,680 square feet (Table 1). The sales productivity of the pharmacy unit according to floor area increased $10.53 over that recorded in 1978 (from $160.45 to $170.98), which suggests that more productivity is being generated from the allotted floor space in participating stores.

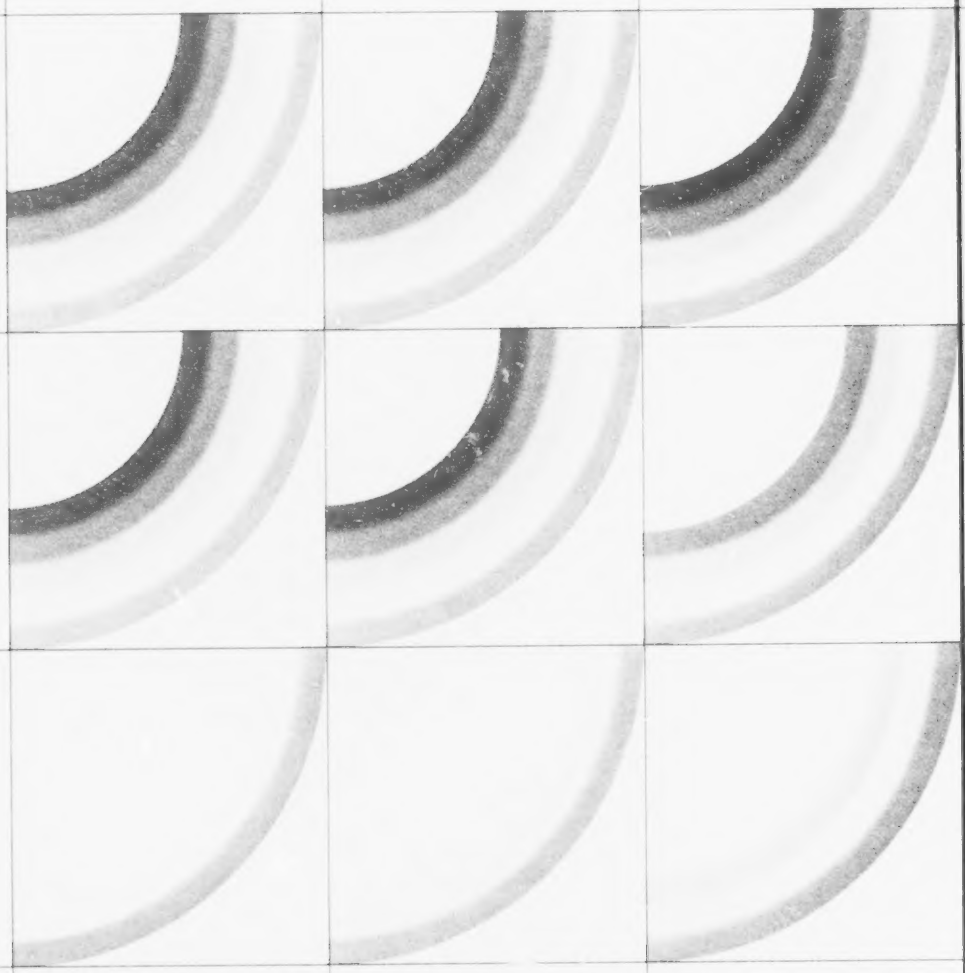
TABLE 6 Prescription trends—1970-1979

AVERAGES PER PHARMACY

Year	Prescription Sales	Percentage of Prescription Sales to Total Sales	Number of Prescriptions	Percent Renewals	Prescription Charge	Prescription Inventory	Prescription Sales per Dollar of Prescription Inventory	Non-prescription Sales per Dollar of Inventory	Non-prescription Inventory as Percent of Sales	Prescription Inventory as Percent of Sales
1970	$137,322	16.2%	36,471	52.9%	$3.77	$16,849	$ 8.15	$6.66	15.0%	12.3%
1971	149,733	16.0%	38,973	51.5%	3.84	17,801	8.41	6.74	14.8%	11.9%
1972	160,702	16.4%	41,344	49.1%	3.89	18,599	8.64	6.78	14.7%	11.6%
1973	170,629	16.1%	41,737	49.2%	4.09	18,871	9.04	6.55	15.3%	11.1%
1974	195,675	16.5%	44,783	48.6%	4.37	20,675	9.46	6.41	15.6%	10.6%
1975	207,382	17.7%	43,457	48.3%	4.77	21,737	9.54	6.77	14.8%	10.5%
1976	224,852	18.2%	43,305	48.6%	5.19	22,387	10.04	6.24	16.0%	10.0%
1977	244,558	18.9%	43,742	47.7%	5.59	24,133	10.13	6.14	16.3%	9.9%
1978	264,523	18.3%	44,144	46.9%	5.99	25,519	10.37	6.40	15.6%	9.6%
1979	287,744	17.9%	43,877	46.1%	6.56	27,491	10.47	6.61	15.1%	9.6%

THE HEART OF THE NACDS-LILLY DIGEST

1979 operations according to sales and prescription activity



The heart of the 1980 NACDS-LILLY DIGEST is composed of 23 categories of chain pharmacy operating data arranged first by sales and then by daily prescription activity (Tables 7 through 9). These groups of operating data are structured to allow comparison with any pharmacy's figures so that management can make a meaningful evaluation. A standard accounting format is used throughout the DIGEST, but adjustments may be necessary to permit proper comparisons with other accounting systems.

Table 7 Sales under $1,000,000

AVERAGES PER PHARMACY	TOTAL SALES Under $500,000 (57 Pharmacies)	TOTAL SALES $500,000 to $750,000 Under 75 Prescriptions Daily (64 Pharmacies)	TOTAL SALES $500,000 to $750,000 Over 75 Prescriptions Daily (45 Pharmacies)
Sales			
Prescription	$155,890— 43.4%	$127,712— 19.7%	$261,451— 39.5%
Other	203,581— 56.6%	521,909— 80.3%	400,816— 60.5%
Total	$359,471—100.0%	$649,621—100.0%	$662,267—100.0%
Cost of goods sold	236,901— 65.9%	456,781— 70.3%	453,283— 68.4%
Gross margin	$122,570— 34.1%	$192,840— 29.7%	$208,984— 31.6%
Expenses			
Manager's salary	$ 21,643— 6.0%	$ 20,244— 3.1%	$ 23,318— 3.5%
Employees' wages	40,535— 11.3%	74,641— 11.5%	71,735— 10.8%
Rent	17,190— 4.8%	22,672— 3.5%	20,407— 3.1%
Utilities (including telephone)	4,369— 1.2%	9,999— 1.5%	8,592— 1.3%
Insurance, licenses, and taxes (except on profit)	6,996— 1.9%	15,151— 2.3%	11,403— 1.8%
Repairs	1,034— 0.3%	2,361— 0.4%	2,074— 0.3%
Advertising	5,209— 1.5%	9,910— 1.5%	9,902— 1.5%
Depreciation (except on buildings)	3,138— 0.9%	5,603— 0.9%	4,023— 0.6%
Supplies	2,434— 0.7%	3,617— 0.6%	4,017— 0.6%
Headquarters fee	12,700— 3.5%	24,586— 3.8%	25,030— 3.8%
All other direct store expenses	12,361— 3.4%	8,688— 1.3%	11,179— 1.7%
	13.4%	12.3%	11.6%
Total expenses	$127,609— 35.5%	$197,472— 30.4%	$191,680— 29.0%
Net profit (before taxes)	($ 5,039— 1.4%)	($ 4,632— 0.7%)	$ 17,304— 2.6%
Value of inventory at cost and as a percent of sales			
Prescription	$ 21,318— 13.7%	$ 19,874— 15.6%	$ 31,748— 12.1%
Other	70,507— 34.6%	124,304— 23.8%	99,193— 24.7%
Total	$ 91,825— 25.5%	$144,178— 22.2%	$130,941— 19.8%
Annual rate of turnover of inventory	2.6 times	3.2 times	3.5 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.
Prescription	391 $410.51	324 $394.58	407 $629.62
Other	2,385 86.90	5,699 91.07	4,952 82.09
Total	2,776 132.46	6,023 107.39	5,359 123.67
Sales per dollar invested in inventory			
Prescription	$7.31	$6.43	$8.24
Other	2.89	4.20	4.04
Net profit per dollar invested in inventory	($0.050)	($0.030)	$0.130
Number of prescriptions dispensed			
New	10,999— 49.6%	10,467— 54.7%	19,415— 50.4%
Renewed	11,190— 50.4%	8,672— 45.3%	19,143— 49.6%
Total	22,189—100.0%	19,139—100.0%	38,558—100.0%
Prescription charge	$7.03	$6.67	$6.78
Number of hours per week			
Pharmacy was open	68 hours	80 hours	78 hours
Worked by proprietor	46 hours	46 hours	48 hours
Worked by employed pharmacist(s)	35 hours	66 hours	58 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES $750,000 to $1,000,000			
Under 50 Prescriptions Daily (26 Pharmacies)	50 to 75 Prescriptions Daily (45 Pharmacies)	75 to 100 Prescriptions Daily (48 Pharmacies)	Over 100 Prescriptions Daily (68 Pharmacies)
$ 89,088— 10.4%	$159,602— 18.7%	$211,379— 24.2%	$294,130— 33.0%
770,054— 89.6%	696,016— 81.3%	661,391— 75.8%	597,143— 67.0%
$859,142—100.0%	$855,618—100.0%	$872,770—100.0%	$891,273—100.0%
602,191— 70.1%	602,580— 70.4%	611,888— 70.1%	614,224— 68.9%
$256,951— 29.9%	$253,038— 29.6%	$260,882— 29.9%	$277,049— 31.1%
$ 21,020— 2.4%	$ 21,397— 2.5%	$ 23,258— 2.7%	$ 22,665— 2.5%
106,704— 12.4%	97,074— 11.3%	86,180— 9.9%	90,122— 10.1%
31,212— 3.6%	24,432— 2.9%	22,797— 2.6%	21,302— 2.4%
13,180— 1.5%	10,391— 1.2%	9,570— 1.1%	9,784— 1.1%
22,781— 2.7%	18,032— 2.1%	14,586— 1.7%	12,952— 1.6%
3,287— 0.4%	2,579— 0.3%	2,720— 0.3%	2,222— 0.2%
15,328— 1.8%	15,394— 1.8%	14,196— 1.6%	15,648— 1.8%
7,249— 0.8%	5,059— 0.6%	3,845— 0.4%	4,128— 0.5%
5,787— 0.7%	4,119— 0.5%	4,212— 0.5%	5,398— 0.6%
27,520— 3.2%	28,460— 3.3%	32,220— 3.7%	38,291— 4.3%
11,633— 1.4%	13,015— 1.6%	12,207— 1.4%	12,154— 1.3%
$265,701— 30.9%	$239,952— 28.1%	$225,791— 25.9%	$235,666— 26.4%
($ 8,750— 1.0%)	$ 13,086— 1.5%	$ 35,091— 4.0%	$ 41,383— 4.7%
$ 17,126— 19.2%	$ 20,780— 13.0%	$ 23,737— 11.2%	$ 28,649 9.7%
132,281— 17.2%	138,581— 19.9%	120,743— 18.3%	122,017— 20.4%
$149,407— 17.4%	$159,361— 18.6%	$144,480— 16.6%	$150,666— 16.9%
4.0 times	3.9 times	4.4 times	4.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
292 $309.51	338 $472.82	380 $555.42	398 $735.26
6,252 122.93	6,613 104.98	6,021 110.23	6,021 98.44
6,544 131.25	6,951 122.85	6,401 136.66	6,419 137.90
$5.20	$7.68	$8.90	$10.27
5.82	5.02	5.48	4.89
($0.060)	$0.080	$0.240	$0.270
7,457— 55.1%	12,444— 53.5%	16,472— 52.5%	23,011— 51.6%
6,080— 44.9%	10,807— 46.5%	14,932— 47.5%	21,599— 48.4%
13,537—100.0%	23,251—100.0%	31,404—100.0%	44,610—100.0%
$6.58	$6.86	$6.73	$6.59
77 hours	79 hours	81 hours	81 hours
45 hours	46 hours	47 hours	47 hours
60 hours	69 hours	63 hours	68 hours

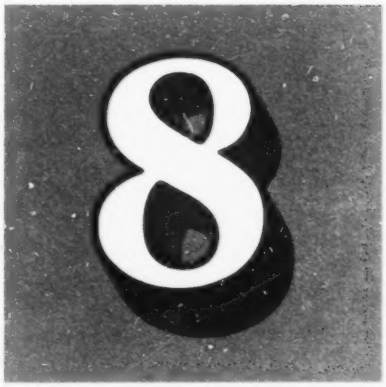


Table 8 Sales $1,000,000 to $2,000,000

AVERAGES PER PHARMACY	Under 50 Prescriptions Daily (27 Pharmacies)	50 to 75 Prescriptions Daily (56 Pharmacies)	75 to 100 Prescriptions Daily (74 Pharmacies)	100 to 150 Prescriptions Daily (124 Pharmacies)
	TOTAL SALES $1,000,000 to $1,500,000			
Sales				
Prescription	$ 86,968— 7.2%	$ 152,312— 12.5%	$ 215,024— 17.2%	$ 293,082— 23.8%
Other	1,126,792— 92.8%	1,063,661— 87.5%	1,033,852— 82.8%	936,052— 76.2%
Total	$1,213,760—100.0%	$1,215,973—100.0%	$1,248,876—100.0%	$1,229,134—100.0%
Cost of goods sold	871,869— 71.8%	876,125— 72.1%	886,528— 71.0%	870,170— 70.8%
Gross margin	$ 341,891— 28.2%	$ 339,848— 27.9%	$ 362,348— 29.0%	$ 358,964— 29.2%
Expenses				
Manager's salary	$ 25,928— 2.1%	$ 23,368— 1.9%	$ 23,116— 1.9%	$ 24,725— 2.0%
Employees' wages	135,660— 11.2%	134,037— 11.0%	129,557— 10.4%	117,748— 9.6%
Rent	45,119— 3.7%	38,747— 3.2%	36,602— 2.9%	33,020— 2.7%
Utilities (including telephone)	15,466— 1.3%	16,059— 1.3%	15,360— 1.2%	12,709— 0.9%
Insurance, licenses, and taxes (except on profit)	27,110— 2.2%	23,487— 1.9%	19,273— 1.5%	18,300— 1.5%
Repairs	4,614— 0.4%	4,695— 0.4%	3,782— 0.3%	3,620— 0.3%
Advertising	23,830— 2.0%	22,909— 1.9%	23,177— 1.9%	22,041— 1.8%
Depreciation (except on buildings)	12,928— 1.1%	9,811— 0.8%	7,539— 0.6%	5,979— 0.5%
Supplies	6,814— 0.6%	6,141— 0.5%	6,386— 0.5%	6,236— 0.5%
Headquarters fee	39,079— 3.2%	37,155— 3.1%	42,461— 3.4%	43,770— 3.6%
All other direct store expenses	37,007— 3.0%	28,000— 2.3%	23,324— 1.9%	16,777— 1.4%
	13.8%	12.2%	11.3%	10.5%
Total expenses	$ 373,555— 30.8%	$ 344,409— 28.3%	$ 330,577— 26.5%	$ 304,925— 24.8%
Net profit (before taxes)	($ 31,664— 2.6%)	($ 4,561— 0.4%)	$ 31,771— 2.5%	$ 54,039— 4.4%
Value of inventory at cost and as a percent of sales				
Prescription	$ 18,979— 21.8%	$ 21,732— 14.3%	$ 23,780— 11.1%	$ 28,930— 9.9%
Other	172,840— 15.3%	169,534— 15.9%	170,899— 16.5%	165,878— 17.7%
Total	$ 191,819— 15.8%	$ 191,266— 15.7%	$ 194,679— 15.6%	$ 194,808— 15.8%
Annual rate of turnover of inventory	4.6 times	4.7 times	4.6 times	4.6 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	478 $178.32	391 $392.58	372 $577.61	332 $901.82
Other	9,333 121.73	8,773 119.99	8,189 127.58	7,220 127.52
Total	9,811 124.49	9,164 131.62	8,561 147.13	7,552 161.56
Sales per dollar invested in inventory				
Prescription	$4.58	$7.01	$9.04	$10.13
Other	6.52	6.27	6.05	5.64
Net profit per dollar invested in inventory	($0.170)	($0.020)	$0.160	$0.280
Number of prescriptions dispensed				
New	7,559— 57.1%	12,394— 55.0%	17,304— 54.7%	23,979— 53.6%
Renewed	5,679— 42.9%	10,148— 45.0%	14,339— 45.3%	20,793— 46.4%
Total	13,238—100.0%	22,542—100.0%	31,643—100.0%	44,772—100.0%
Prescription charge	$6.57	$6.76	$6.80	$6.55
Number of hours per week				
Pharmacy was open	81 hours	82 hours	82 hours	82 hours
Worked by proprietor	44 hours	46 hours	46 hours	46 hours
Worked by employed pharmacist(s)	68 hours	77 hours	77 hours	71 hours

*Based on averages of pharmacies that reported all data

TOTAL SALES
$1,500,000 to $2,000,000

Over 150 Prescriptions Daily (87 Pharmacies)	Under 75 Prescriptions Daily (27 Pharmacies)	75 to 100 Prescriptions Daily (48 Pharmacies)	100 to 150 Prescriptions Daily (98 Pharmacies)	150 to 200 Prescriptions Daily (41 Pharmacies)	Over 200 Prescriptions Daily (37 Pharmacies)
$ 418,866— 33.0%	$ 134,618— 8.0%	$ 208,991— 12.3%	$ 301,559— 17.1%	$ 395,000— 22.8%	$ 554,808— 31.2%
849,414— 67.0%	1,539,744— 92.0%	1,486,520— 87.7%	1,458,885— 82.9%	1,338,597— 77.2%	1,220,921— 68.8%
$1,268,280—100.0%	$1,674,362—100.0%	$1,695,511—100.0%	$1,760,444—100.0%	$1,733,597—100.0%	$1,775,729—100.0%
902,346— 71.1%	1,171,785— 70.0%	1,228,607— 72.5%	1,265,574— 71.9%	1,238,556— 71.4%	1,262,556— 71.1%
$ 365,934— 28.9%	$ 502,577— 30.0%	$ 466,904— 27.5%	$ 494,870— 28.1%	$ 495,041— 28.6%	$ 513,173— 28.9%
$ 25,609— 2.0%	$ 23,284— 1.4%	$ 30,166— 1.8%	$ 28,739— 1.6%	$ 28,551— 1.6%	$ 26,910— 1.5%
108,005— 8.5%	168,635— 10.1%	170,840— 10.1%	174,750— 9.9%	159,227— 9.2%	140,117— 7.9%
36,900— 2.9%	68,143— 4.1%	50,043— 3.0%	45,859— 2.6%	44,841— 2.6%	49,793— 2.8%
11,359— 0.9%	18,283— 1.1%	17,813— 1.1%	18,589— 1.0%	17,585— 1.0%	14,347— 0.8%
17,272— 1.4%	25,640— 1.5%	26,947— 1.6%	24,197— 1.4%	22,905— 1.3%	19,522— 1.1%
3,756— 0.3%	5,191— 0.3%	5,238— 0.3%	5,153— 0.3%	4,186— 0.2%	4,473— 0.3%
25,419— 2.0%	33,489— 2.0%	29,714— 1.7%	26,359— 1.5%	27,610— 1.6%	38,516— 2.2%
6,565— 0.5%	12,333— 0.7%	12,391— 0.7%	8,919— 0.5%	10,064— 0.6%	8,900— 0.5%
7,025— 0.6%	9,544— 0.6%	7,728— 0.4%	8,975— 0.5%	9,457— 0.6%	10,474— 0.6%
48,609— 3.9%	50,871— 3.0%	45,905— 2.7%	47,034— 2.7%	59,476— 3.4%	62,827— 3.5%
13,020— 1.0%	27,096— 1.6%	32,717— 1.9%	36,543— 2.1%	33,872— 2.0%	16,369— 0.9%
10.6%	19.8%	10.4%	10.0%	10.7%	9.0%
$ 303,539— 24.0%	$ 442,509— 26.4%	$ 429,502— 25.3%	$ 425,117— 24.1%	$ 417,774— 24.1%	$ 392,248— 22.1%
$ 62,395— 4.9%	$ 60,068— 3.6%	$ 37,402— 2.2%	$ 69,753— 4.0%	$ 77,267— 4.5%	$ 120,925— 6.8%
$ 32,818— 7.8%	$ 18,359— 13.6%	$ 23,810— 11.4%	$ 28,930— 9.6%	$ 30,513— 7.7%	$ 39,488— 7.1%
183,475— 21.6%	244,630— 15.9%	211,539— 14.2%	210,225— 14.4%	234,044— 17.5%	240,618— 19.7%
$ 216,293— 17.1%	$ 262,989— 15.7%	$ 235,349— 13.9%	$ 239,155— 13.6%	$ 264,557— 15.3%	$ 280,106— 15.8%
4.3 times	4.6 times	5.2 times	5.3 times	4.9 times	4.7 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
386 $1,080.15	384 $338.45	517 $405.42	461 $665.06	483 $828.06	381 $1,487.41
6,544 125.99	11,079 138.14	10,807 136.01	10,153 142.44	9,258 145.98	8,232 143.65
6,930 179.15	11,463 144.85	11,324 148.31	10,614 165.14	9,741 179.76	8,613 203.03
$12.76	$7.33	$8.78	$10.42	$12.95	$14.05
4.63	6.29	7.03	6.94	5.72	5.07
$0.290	$0.230	$0.160	$0.290	$0.290	$0.430
34,120— 51.6%	10,680— 55.0%	17,224— 55.2%	24,689— 55.4%	32,930— 53.1%	45,951— 51.6%
31,993— 48.4%	8,733— 45.0%	13,979— 44.8%	19,871— 44.6%	29,052— 46.9%	43,123— 48.4%
66,113—100.0%	19,413—100.0%	31,203—100.0%	44,560—100.0%	61,982—100.0%	89,074—100.0%
$6.34	$6.93	$6.70	$6.77	$6.37	$6.23
83 hours	80 hours	84 hours	88 hours	85 hours	85 hours
45 hours	46 hours	46 hours	46 hours	45 hours	45 hours
69 hours	70 hours	89 hours	97 hours	93 hours	86 hours

Table 9 Sales over $2,000,000

AVERAGES PER PHARMACY	TOTAL SALES $2,000,000 to $2,500,000 — Under 150 Prescriptions Daily (80 Pharmacies)		Over 150 Prescriptions Daily (59 Pharmacies)	
Sales				
Prescription	$ 273,471	12.3%	$ 431,393	19.0%
Other	1,942,530	87.7%	1,839,593	81.0%
Total	$2,216,001	100.0%	$2,270,986	100.0%
Cost of goods sold	1,621,224	73.2%	1,629,815	71.8%
Gross margin	$ 594,777	26.8%	$ 641,171	28.2%
Expenses				
Manager's salary	$ 29,108	1.3%	$ 31,223	1.4%
Employees' wages	204,345	9.2%	205,257	9.0%
Rent	58,839	2.7%	54,716	2.4%
Utilities (including telephone)	21,242	1.0%	20,916	0.9%
Insurance, licenses, and taxes (except on profit)	33,979	1.5%	28,267	1.2%
Repairs	7,767	0.4%	4,570	0.2%
Advertising	35,002	1.6%	28,778	1.3%
Depreciation (except on buildings)	15,561	0.7%	12,048	0.5%
Supplies	9,633	0.4%	12,418	0.5%
Headquarters fee	58,639	2.6%	60,045	2.7%
All other direct store expenses	38,302	1.7%	47,010	2.1%
		9.9%		9.4%
Total expenses	$ 512,417	23.1%	$ 505,248	22.2%
Net profit (before taxes)	$ 82,360	3.7%	$ 135,923	6.0%
Value of inventory at cost and as a percent of sales				
Prescription	$ 27,278	10.0%	$ 33,950	7.9%
Other	254,251	13.1%	253,131	13.8%
Total	$ 281,529	12.7%	$ 287,081	12.6%
Annual rate of turnover of inventory	5.8 times		5.8 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	441	$636.63	527	$844.97
Other	11,496	166.97	10,688	171.88
Total	11,937	184.32	11,215	203.51
Sales per dollar invested in inventory				
Prescription	$10.03		$12.71	
Other	7.64		7.27	
Net profit per dollar invested in inventory	$0.290		$0.470	
Number of prescriptions dispensed				
New	22,369	54.6%	37,682	55.3%
Renewed	18,577	45.4%	30,405	44.7%
Total	40,946	100.0%	68,087	100.0%
Prescription charge	$6.68		$6.34	
Number of hours per week				
Pharmacy was open	86 hours		92 hours	
Worked by proprietor	46 hours		45 hours	
Worked by employed pharmacist(s)	92 hours		106 hours	

*Based on averages of pharmacies that reported all data

TOTAL SALES $2,500,000 to $3,000,000		TOTAL SALES Over $3,000,000	
Under 150 Prescriptions Daily (36 Pharmacies)	Over 150 Prescriptions Daily (56 Pharmacies)	Under 200 Prescriptions Daily (53 Pharmacies)	Over 200 Prescriptions Daily (37 Pharmacies)
$ 279,587— 10.2%	$ 441,751— 16.2%	$ 374,371— 9.6%	$ 597,112— 13.7%
2,458,949— 89.8%	2,278,103— 83.8%	3,528,274— 90.4%	3,764,768— 86.3%
$2,738,536—100.0%	$2,719,854—100.0%	$3,902,645—100.0%	$4,361,880—100.0%
2,035,785— 74.3%	1,967,024— 72.3%	2,873,829— 73.6%	3,247,777— 74.5%
$ 702,751— 25.7%	$ 752,830— 27.7%	$1,028,816— 26.4%	$1,114,103— 25.5%
$ 32,731— 1.2%	$ 34,756— 1.3%	$ 32,822— 0.8%	$ 38,657— 0.9%
234,692— 8.6%	245,199— 9.0%	327,118— 8.4%	384,039— 8.8%
73,793— 2.7%	66,550— 2.4%	90,649— 2.3%	84,978— 1.9%
25,434— 0.9%	26,095— 1.0%	29,844— 0.8%	26,618— 0.6%
44,838— 1.6%	36,606— 1.3%	52,074— 1.3%	53,159— 1.2%
12,296— 0.5%	7,065— 0.3%	13,472— 0.4%	9,191— 0.2%
34,108— 1.3%	32,291— 1.2%	59,998— 1.5%	51,589— 1.2%
20,301— 0.8%	15,768— 0.6%	24,766— 0.7%	19,142— 0.5%
11,934— 0.4%	13,903— 0.5%	13,004— 0.3%	17,978— 0.4%
74,226— 2.7%	58,887— 2.2%	94,560— 2.4%	61,372— 1.4%
33,630— 1.2%	50,213— 1.8%	52,873— 1.4%	75,688— 1.7%
9.4%	8.9%	8.8%	7.2%
$ 597,983— 21.9%	$ 587,333— 21.6%	$ 791,180— 20.3%	$ 822,411— 18.8%
$ 104,768— 3.8%	$ 165,497— 6.1%	$ 237,636— 6.1%	$ 291,692— 6.7%
$ 28,549— 10.2%	$ 32,470— 7.4%	$ 32,040— 8.6%	$ 35,559— 6.0%
317,487— 12.9%	278,458— 12.2%	406,432— 11.5%	401,910— 10.7%
$ 346,036— 12.6%	$ 310,928— 11.4%	$ 438,472— 11.2%	$ 437,469— 10.0%
5.8 times	6.4 times	6.8 times	7.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
380 $742.69	446 $1,011.27	408 $937.57	533 $1,127.61
15,715 156.35	11,352 198.48	14,903 237.66	12,615 328.89
16,095 170.20	11,798 229.18	15,311 256.29	13,148 361.28
$9.79	$13.60	$11.68	$16.79
7.75	8.18	8.68	9.37
$0.300	$0.530	$0.540	$0.670
22,932— 55.0%	39,058— 55.9%	31,643— 55.9%	50,735— 55.7%
18,775— 45.0%	30,805— 44.1%	24,959— 44.1%	40,384— 44.3%
41,707—100.0%	69,863—100.0%	56,602—100.0%	91,119—100.0%
$6.70	$6.32	$6.61	$6.55
87 hours	90 hours	89 hours	88 hours
47 hours	46 hours	46 hours	45 hours
97 hours	108 hours	94 hours	125 hours

Review by the Number of Units

TABLE 10

Operations according to number of units in the chain

AVERAGES PER PHARMACY	Under 11 Units (59 Pharmacies)		11 to 25 Units (102 Pharmacies)		26 to 50 Units (211 Pharmacies)		51 to 100 Units (216 Pharmacies)	
Sales								
Prescription	$ 259,911	21.5%	$ 240,593	18.7%	$ 265,120	19.1%	$ 308,113	18.7%
Other	946,334	78.5%	1,045,311	81.3%	1,125,217	80.9%	1,343,385	81.3%
Total	$1,206,245	100.0%	$1,285,904	100.0%	$1,390,337	100.0%	$1,651,498	100.0%
Cost of goods sold	855,240	70.9%	917,067	71.3%	977,783	70.3%	1,215,286	73.6%
Gross margin	$ 351,005	29.1%	$ 368,837	28.7%	$ 412,554	29.7%	$ 436,212	26.4%
Expenses								
Manager's salary	$ 23,406	1.9%	$ 21,543	1.7%	$ 21,668	1.6%	$ 34,713	2.1%
Employees' wages	123,771	10.3%	123,819	9.6%	140,165	10.1%	154,905	9.4%
Rent	24,537	2.0%	34,684	2.7%	39,035	2.8%	42,328	2.6%
Utilities (including telephone)	9,950	0.8%	12,509	1.0%	14,599	1.0%	19,132	1.2%
Insurance, licenses, and taxes (except on profit)	23,261	1.9%	19,668	1.5%	18,578	1.3%	26,942	1.6%
Repairs	3,576	0.3%	5,420	0.4%	3,975	0.3%	2,044	0.1%
Advertising	22,454	1.9%	18,868	1.5%	23,730	1.7%	11,954	0.7%
Depreciation (except on buildings)	6,430	0.5%	11,306	0.9%	10,081	0.7%	10,162	0.6%
Supplies	4,543	0.4%	7,618	0.6%	9,295	0.7%	10,543	0.6%
Headquarters fee	50,002	4.1%	43,071	3.3%	61,613	4.4%	17,612	1.1%
All other direct store expenses	25,854	2.2%	26,918	2.1%	35,506	2.6%	31,023	1.9%
		12.1%		11.3%		12.7%		7.8%
Total expenses	$ 317,784	26.3%	$ 325,424	25.3%	$ 378,245	27.2%	$ 361,358	21.9%
Net profit (before taxes)	$ 33,221	2.8%	$ 43,413	3.4%	$ 34,309	2.5%	$ 74,854	4.5%
Warehouse fee*	$ 12,432	4.8%	$ 9,587	6.7%	$ 17,686	1.9%	$ 30,143	4.9%
As a percent of cost of goods sold		6.7%		9.1%		2.6%		6.9%
Value of inventory at cost and as a percent of sales								
Prescription	$ 26,132	10.1%	$ 26,876	11.2%	$ 26,149	9.9%	$ 29,449	9.6%
Other	155,076	16.4%	182,829	17.5%	193,168	17.2%	208,636	15.5%
Total	$ 181,208	15.0%	$ 209,705	16.3%	$ 219,317	15.8%	$ 238,085	14.4%
Annual rate of turnover of inventory	4.8 times		4.5 times		4.6 times		5.2 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	432	$610.96	377	$638.67	450	$590.46	509	$543.69
Other	7,495	121.76	7,463	140.72	8,310	136.69	8,148	109.76
Total	7,927	148.44	7,840	164.66	8,760	160.00	8,657	135.29
Sales per dollar invested in inventory								
Prescription		$9.95		$8.95		$10.14		$10.46
Other		6.10		5.72		5.83		6.44
Net profit per dollar invested in inventory		$0.183		$0.207		$0.156		$0.314
Number of prescriptions dispensed								
New	19,733	53.3%	18,758	53.1%	19,874	49.7%	27,380	57.3%
Renewed	17,309	46.7%	16,573	46.9%	20,144	50.3%	20,397	42.7%
Total	37,042	100.0%	35,331	100.0%	40,018	100.0%	47,777	100.0%
Prescription charge		$7.02		$6.81		$6.63		$6.45
Number of hours per week								
Pharmacy was open		77 hours		81 hours		83 hours		90 hours
Worked by manager		45 hours		47 hours		47 hours		46 hours
Worked by employed pharmacist(s)		65 hours		73 hours		83 hours		96 hours

*Based on averages of pharmacies that reported all data

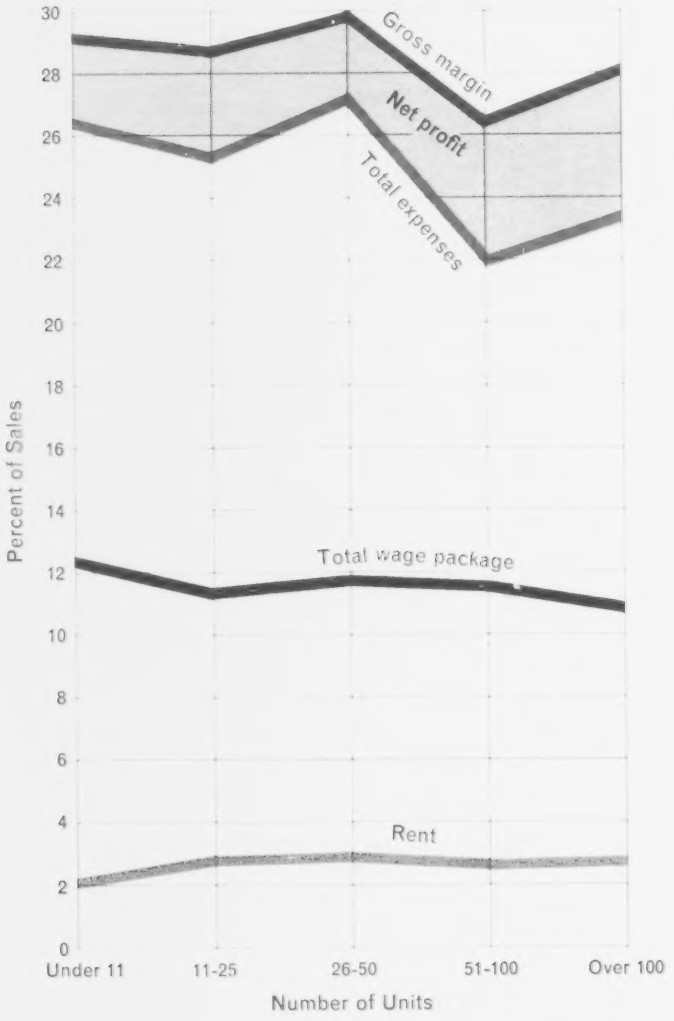
Operating figures for chain pharmacies may be affected by the relative size of the parent organization. Chart 8 is a graphic illustration of selected statistics presented in Table 10 and arranged by the number of units in the chain. The highest net profit before taxes, 4.7 percent, was generated by stores in organizations with over 100 units; in these businesses, effective control of expenses appeared to be the major contributor to profit performance. The operating statistics of pharmacy units belonging to chain organizations of various sizes are summarized in Table 10. The data show that the size of the chain organization by itself does not guarantee the lowest cost of goods sold or the lowest expenditures. Profitability is more likely to be determined by the effectiveness of the management practices in each chain operation.

Almost 55 percent of the pharmacies reporting belong to chain organizations of 100 or more units (Table 10). The weight of this cell causes the resulting figures to approximate the overall averages seen in Table 1 and should be considered when the averages are examined.

Over 100 Units (705 Pharmacies)
$ 297,079— 17.1%
1,436,194— 82.9%
$1,733,273—100.0%
1,248,772— 72.0%
$ 484,501— 28.0%
$ 26,425— 1.5%
160,379— 9.3%
47,383— 2.7%
16,202— 0.9%
25,282— 1.5%
5,942— 0.3%
31,184— 1.8%
9,410— 0.6%
6,930— 0.4%
50,554— 2.9%
23,423— 1.4%
$ 403,114— 23.3%
$ 81,387— 4.7%
$ 26,498— 2.6%
3.5%
$ 27,498— 9.3%
204,347— 14.2%
$ 231,845— 13.4%
5.5 times
sq. ft.
361 $749.84
8,517 163.45
8,878 187.27
$10.80
7.03
$0.351
24,625— 54.0%
20,973— 46.0%
45,598—100.0%
$6.52
82 hours
45 hours
78 hours

CHART 8

Selected operating statistics according to number of units in the chain



Sources of Supply

The decision to support a central warehouse may involve a long-term commitment by a chain organization. Establishment of a warehouse for purchasing, distribution, and control functions need not be based entirely on economic considerations. A comparison of operating statistics of chain drugstores that are supplied by a central warehouse and of those that do not have access to one should be of interest.

Table 11 is separated into two parts. The operating statistics which concern the chains that warehouse are depicted in color in the left-hand column of the table, and those for nonwarehouse organizations are presented in the remaining three columns. There were 868 units (67.1 percent) submitting data to the NACDS-LILLY DIGEST that used warehouse facilities, whereas 91 units (7 percent) did not make any purchases from a central warehouse. These stores reported a higher cost of goods sold and, in turn, a lower gross margin than outlets that bought from a central warehouse. A lower total wage package and headquarters fee, as a percent of sales, allowed total expenses to offset the reduced gross margin and resulted in a higher net profit for the nonwarehouse user. The higher total wage package, as a percent of sales, is reflected in longer store hours and contributed to larger total expenses among warehouse-serviced accounts. Chain drugstores that order from a warehouse report a higher headquarters fee as a percent of sales; this may include a portion of

TABLE 11

Chain operations according to sources of supply

AVERAGES PER PHARMACY	[illegible]	0% Ordered from Warehouse (91 Pharmacies)
Prescription sales	[illegible]	$ 277,782— 13.4%
Total sales (including prescription sales)	[illegible]	$2,072,425—100.0%
Cost of goods sold	[illegible]	1,503,321— 72.5%
Gross margin	[illegible]	$ 569,104— 27.5%
Total wage package	[illegible]	223,305— 10.8%
Headquarters fee	[illegible]	29,943— 1.4%
Total expenses (including total wage package)	[illegible]	443,859 - 21.5%
Net profit	[illegible]	$ 125,245— 6.0%
Total number of prescriptions dispensed	[illegible]	38,577
Value of inventory at cost and as a percent of sales		
Prescription	[illegible]	$ 26,116— 9.4%
Other	[illegible]	241,579— 13.5%
Total	[illegible]	$ 267,695— 12.9%
Annual rate of turnover of inventory	[illegible]	5.8 times
Sales per dollar invested in inventory		
Prescription	[illegible]	$10.64
Other	[illegible]	7.43
Total floor area*	[illegible]	8,340 sq. ft.
Sales per square foot	[illegible]	$245.53
Number of hours pharmacy was open per week	[illegible]	80 hours

*Based on averages of pharmacies that reported all data

expenses incurred that were not completely allocated to the individual units as a cost of distribution.

As a percent of sales, inventory was lower in the average chain store that did not purchase from a warehouse and, therefore, the inventory turnover rate was higher. The sales productivity of each dollar invested in inventory was greater for the nonwarehouse operations. These pharmacies also posted higher sales per square foot than did the warehouse units because of greater total sales and smaller total floor area.

It should be pointed out that successful chain organizations can be found in both groups, and the decision regarding whether to support a central warehouse must be based on short and long-term requirements and goals for the respective units.

The two right-hand columns contain data from operations that buy 50 percent or more of their goods from a wholesaler or directly from a supplier. The organizations that reported no warehouse association are represented in the wholesale and direct categories. The number of pharmacies ordering primarily from a wholesaler was up to 121, or 9.4 percent, in 1979, as compared with 82, or 6.2 percent, in 1978.

The chain units that purchased primarily through a wholesaler reported lower net profit as compared with accounts that purchased directly from a supplier. Units buying from a wholesaler allocated significantly more space to display merchandise than did the direct buyer, while remaining open essentially the same number of hours per week. The stores that bought directly from a supplier had a lower inventory level, as a percent of sales, and a higher inventory turnover rate than did the wholesaler account. The direct-purchasing pharmacies also achieved greater sales productivity per dollar of inventory investment than did units serviced by a wholesaler. Both of these latter inventory relationshops may be explained by the substantial floor space in the wholesaler-oriented stores that requires merchandise be stored and displayed properly.

Table 11 is a summary of operating statistics submitted by NACDS-Lilly Digest participants, and no endorsement of any particular system is intended. This information should be kept in proper perspective and utilized in conjunction with all other pertinent data so that meaningful comparisons can be made.

50% to 75% Purchased from Wholesaler (121 Pharmacies)	50% to 100% Purchased Direct (176 Pharmacies)
$ 278,893— 14.7%	$ 286,162— 13.6%
$1,897,784—100.0%	$2,107,054—100.0%
1,374,618— 72.4%	1,529,191— 72.6%
$ 523,166— 27.6%	$ 577,863— 27.4%
204,138— 10.8%	215,878— 10.2%
40,356— 2.1%	44,959— 2.1%
419,811— 22.2%	460,423— 21.8%
$ 103,355— 5.4%	$ 117,440— 5.6%
39,329	42,316
$ 27,290— 9.8%	$ 24,336— 8.5%
232,882— 14.4%	231,519— 12.7%
$ 260,172— 13.7%	$ 255,855— 12.1%
5.5 times	6.0 times
$10.22	$11.76
6.95	7.86
8,136 sq. ft.	5,806 sq. ft.
$229.33	$263.38
80 hours	79 hours

Rent Review

The distribution of rental expenditures for chain drugstores is illustrated in Chart 9. Among the units included in the NACDS-LILLY DIGEST for 1980, 75.1 percent reported a rental expense of less than 3.5 percent of sales, and almost 92 percent of the pharmacies paid a rental charge under 4.5 percent of total sales.

Table 12 was arranged so that chain management could evaluate rent according to various unit characteristics. A realistic and reasonable comparison of rental data can be made when proper consideration is given to all the sections of this table.

Section A describes the general relationship between annual sales volume and floor area. As sales advance, the size of the unit in square feet tends to expand. Rent per square foot generally rises with additional floor space, but it is significant that productivity also tends to increase, as demonstrated by the sales-per-square-foot ratios. Percentagewise, rent declines as sales volume and pharmacy size grow.

Section B presents rental expenditures expressed as the percentage of prescription volume to total sales. The average sales and size of the chain pharmacy both fall as the percentage of prescription volume goes up. Sales per square foot and rent per square foot remain fairly constant except when the prescription revenue accounts for over 50 percent of total income. Floor area, at this point, becomes more productive as well as more expensive.

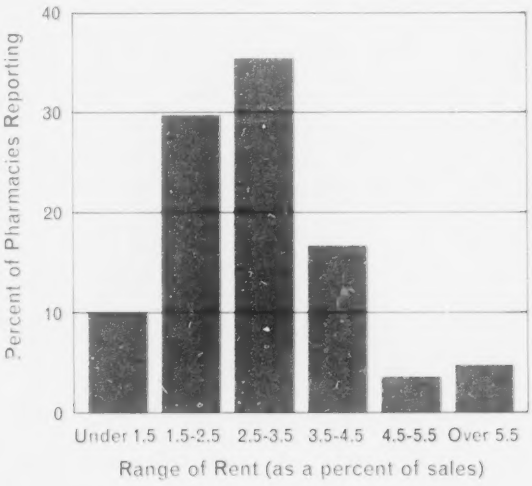
Section C shows the effect of prescription activity on rental outlay. Since it has previously been stated that prescription activity and sales volume enjoy a positive relationship, the data found in this section can be expected to resemble the statistics in Section A.

Section D expresses rental information in terms of the number of units in the chain. No definitive correlations are observed in this section, and comparisons should therefore be made on an individual basis. It is interesting to note that the units belonging to chain organizations of over 100 stores recorded the highest average sales, floor area, and sales and rent per square foot.

Section E illustrates how differences in geographic location account for variations found in average sales, size of the pharmacy, and rent. Rent as a percentage of sales is lowest in the Pacific States and highest in the South Atlantic States. However, when rent per square foot is reviewed, the West South Central States report the largest figure. It is noteworthy that, in comparison with 1978 data, the rental cost per square foot for stores located in the East South Central States showed a significant reduction—possibly the result of an increase in the average size of chain units in this area.

CHART 9

Percent of pharmacies reporting various rent percentage ranges



Section F summarizes the various statistics according to floor size, and there appears to be a direct correlation between unit square footage and average sales.

Section G relates rental statistics to store age. As anticipated, newer pharmacies show a lower average sales volume than do established operations, since they have not attained their full sales potential. The average size of newer outlets (under two years old) is 9,764 square feet in comparison with an average area of about 8,900 square feet for older operations, which indicates a trend toward larger-sized units. However, since these observations contradict those published in the last edition of the NACDS-LILLY DIGEST, it would be wise to study another year's data before drawing any conclusions.

TABLE 12

Rent correlated with various factors

		Average Sales	Size of Pharmacy* (Square Feet)	Sales per Square Foot*	Average Rent	Rent per Square Foot	Rent Percentage
A	**Annual Sales**						
	Under $500,000	$ 359,471	2,776	$132.46	$17,190	$ 6.19	4.8%
	$500,000 to $750,000	654,842	5,747	113.69	21,737	3.78	3.3%
	$750,000 to $1,000,000	873,476	6,562	132.74	23,817	3.63	2.7%
	$1,000,000 to $1,500,000	1,239,228	8,223	149.67	36,417	4.43	2.9%
	$1,500,000 to $2,000,000	1,736,635	10,585	162.92	49,470	4.67	2.8%
	$2,000,000 to $2,500,000	2,239,340	11,629	192.23	57,089	4.91	2.5%
	$2,500,000 to $3,000,000	2,727,164	13,265	204.74	69,384	5.23	2.5%
	Over $3,000,000	4,091,441	14,431	295.20	88,318	6.12	2.2%
B	**Percentage of Prescription Volume to Total Sales**						
	Under 10%	$2,390,937	12,227	$186.17	$67,257	$5.50	2.8%
	10% to 20%	1,856,814	9,904	187.48	49,428	4.99	2.7%
	20% to 30%	1,242,615	7,310	157.61	33,089	4.53	2.7%
	30% to 40%	1,071,002	6,590	143.44	29,851	4.53	2.8%
	40% to 50%	957,681	5,565	155.10	21,607	3.88	2.3%
	Over 50%	429,237	1,364	327.98	19,731	14.47	4.6%
C	**Prescriptions Dispensed Daily**						
	Under 50	$ 935,709	7,574	$134.44	$36,857	$4.87	3.9%
	50 to 75	990,525	7,647	143.33	32,027	4.19	3.2%
	75 to 100	1,278,501	8,264	179.47	36,605	4.43	2.9%
	100 to 150	1,637,398	8,825	199.38	42,772	4.85	2.6%
	150 to 200	2,165,946	10,293	348.66	53,882	5.23	2.5%
	Over 200	2,565,557	10,414	524.52	59,131	5.68	2.3%
D	**Number of Units in Chain**						
	Under 11	$1,206,245	7,927	$148.44	$24,537	$3.10	2.0%
	11 to 25	1,285,904	7,840	164.66	34,684	4.42	2.7%
	26 to 50	1,390,337	8,760	160.00	39,035	4.46	2.8%
	51 to 100	1,651,498	8,657	135.29	42,328	4.89	2.6%
	Over 100	1,733,273	8,878	187.27	47,383	5.34	2.7%
E	**Geographic Location**						
	New England States	$1,351,015	6,972	$183.93	$35,594	$5.11	2.6%
	Middle Atlantic States	1,860,366	12,474	192.33	47,588	3.82	2.6%
	South Atlantic States	1,492,478	10,932	138.25	49,737	4.55	3.3%
	East North Central States	1,583,938	7,242	190.65	41,354	5.71	2.6%
	West North Central States	1,491,247	9,937	147.50	42,264	4.25	2.8%
	East South Central States	1,089,038	7,722	128.85	31,690	4.10	2.9%
	West South Central States	1,919,234	6,063	179.27	45,216	7.46	2.4%
	Mountain States	1,714,100	8,431	188.39	55,699	6.61	3.2%
	Pacific States	2,348,797	10,243	225.75	52,566	5.13	2.2%
F	**Floor Size**						
	Under 1,500 square feet	$ 406,014	998	$406.91	$22,661	$22.71	5.6%
	1,500 to 4,999 square feet	861,737	3,597	239.58	23,012	6.40	2.7%
	5,000 to 9,999 square feet	1,273,864	7,231	176.17	34,563	4.78	2.7%
	10,000 to 12,499 square feet	1,822,492	11,192	162.84	45,874	4.10	2.5%
	12,500 to 14,999 square feet	2,156,319	13,674	157.70	59,566	4.36	2.8%
	15,000 to 17,499 square feet	3,005,437	15,744	190.90	74,612	4.74	2.5%
	17,500 to 19,999 square feet	2,367,468	18,159	130.38	68,549	3.77	2.9%
	20,000 to 30,000 square feet	2,783,231	22,408	124.20	79,613	3.55	2.9%
	Over 30,000 square feet	3,950,847	32,896	120.10	97,338	2.96	2.5%
G	**Store Age**						
	Under 2 years	$1,216,804	9,764	$124.62	$41,469	$4.25	3.4%
	2 to 5 years	1,466,018	9,200	159.34	40,072	4.36	2.7%
	6 to 10 years	1,565,092	9,478	165.14	38,077	4.02	2.4%
	Over 10 years	1,486,925	8,135	182.78	40,297	4.95	2.7%

*Based on averages of pharmacies that reported all data

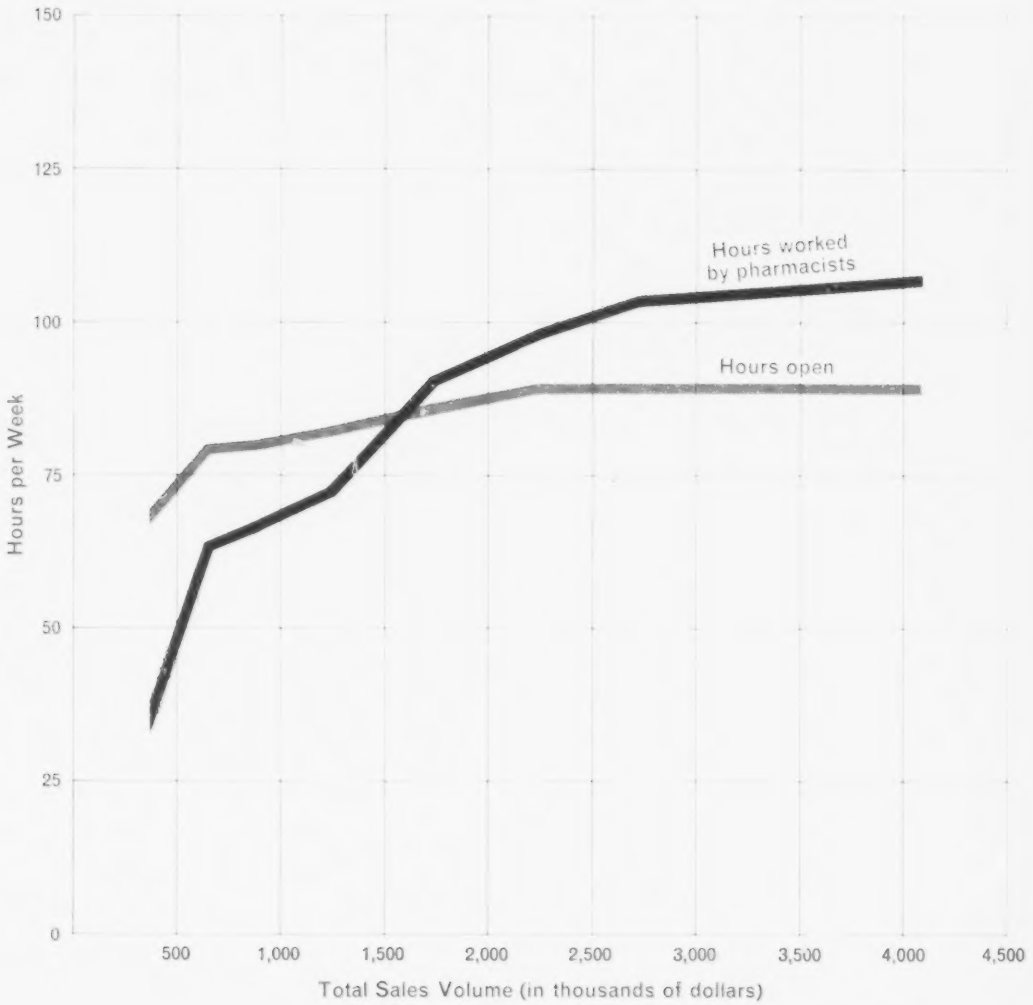
Pharmacy Hours

Earlier editions of the NACDS-LILLY DIGEST have described the trend toward longer business hours with a growing annual sales volume. Generally, that pattern was observed in 1979, as shown in Chart 10; however, pharmacy units with over $3,000,000 in annual income were open the same number of hours as stores with approximately half the sales volume.

As stated earlier in the section on "Prescription Department Review" (page 12), greater prescription activity is accompanied by an increase in total sales and in employed pharmacist hours. This association is illustrated by the data in Chart 10 which show the number of hours worked by employed pharmacists peaks at 107 hours in units with sales volume over $3,000,000 (essentially unchanged from the 1978 statistic). The number of hours worked by employed pharmacists did not exceed the hours open per week until a sales level of $1,500,000 to $2,000,000 was attained; as would be expected, fewer employed pharmacist hours were reported for lower-volume operations because of the dual role of the pharmacist-manager. In outlets with larger volume, prescription activity also rises, with the result that additional pharmacists must be employed to carry the increased workload. Although the pharmacist-manager may also be needed to assist staff pharmacists during periods of peak prescription activity, he usually devotes more time to managerial duties as sales increase.

CHART 10

Pharmacy hours according to sales volume



Geographic Review

Tables 13 and 14 summarize differences in operating statistics according to geographic region, which should be considered when an individual unit's operating figures are evaluated in comparison with the averages published in the DIGEST. Regional factors that contribute to variations in operating statistics are the cost of living, population density, buying power, ratio of pharmacies to population, pharmacy manpower, and governmental health programs. The geographic breakdowns are consistent with those of the U.S. Department of Commerce and, therefore, can be compared with published regional economic statistics.

The Pacific States continue to report the highest average annual sales and the highest average prescription charge but remained open the lowest number of hours per week (Table 13).

Stores in the Middle Atlantic States filled the highest number of prescriptions and reported the lowest average prescription charge. This region once again showed the largest increase in prescription activity compared with the amount of prescription volume recorded in 1978. Pharmacies in the West North Central States dispensed the smallest number of prescriptions.

The East South Central States continued to generate the highest percent of prescription sales to total sales (24.7 percent, down 0.4 percent), whereas the Pacific States units posted the lowest (13.0 percent, up 1.2 percent). Stores in the West North Central and Middle Atlantic States exhibited the largest increase in the percentage of prescription sales to total sales (up 1.4 percent).

Net profit ranged from a low of 1.9 percent of sales in the New England States to a high of 6.2 percent in the Pacific States. In comparison with 1978 data, the New England States showed the greatest improvement in net profit (up 0.8 percent), which essentially reflected a higher gross margin accompanied by better control of total expenses. The East South Central States, however, reported the largest decline in net profit (down 2.0 percent to 4.5 percent of sales). This decrease resulted from a significant reduction in gross margin that was not offset by lower total expenses.

Table 14 provides the opportunity to compare pharmacy operating statistics according to various regions. For individual store comparison, the appropriate table in the "Heart of the NACDS-LILLY DIGEST" is recommended.

TABLE 13

Geographic summary of selected statistics

	Total Sales (in millions of dollars)	Number of Prescriptions (in thousands)	Percent of Prescription Sales to Total Sales	Net Profit (percent of sales)	Average Prescription Charge	Hours Open Weekly
New England States	$1.4	42.4	20.0%	1.9%	$6.36	84
Middle Atlantic States	1.9	62.8	20.1%	4.9%	5.96	84
South Atlantic States	1.5	38.4	17.0%	3.2%	6.60	87
East North Central States	1.6	41.0	17.4%	4.4%	6.73	83
West North Central States	1.5	35.0	16.8%	3.5%	7.16	79
East South Central States	1.1	42.1	24.7%	4.5%	6.40	84
West South Central States	1.9	51.5	17.2%	4.2%	6.40	89
Mountain States	1.7	36.5	15.0%	5.5%	7.04	81
Pacific States	2.3	40.9	13.0%	6.2%	7.48	78
U.S. Average	1.6	43.9	17.9%	4.2%	6.56	84

TABLE 14 Chain operations according to geographic location

AVERAGES PER PHARMACY	New England States (130 Pharmacies)		Middle Atlantic States (167 Pharmacies)		East North Central States (354 Pharmacies)		West North Central States (119 Pharmacies)	
Sales								
Prescription	$ 269,818	20.0%	$ 374,215	20.1%	$ 276,053	17.4%	$ 250,251	16.8%
Other	1,081,197	80.0%	1,486,151	79.9%	1,307,885	82.6%	1,240,996	83.2%
Total	$1,351,015	100.0%	$1,860,366	100.0%	$1,583,938	100.0%	$1,491,247	100.0%
Cost of goods sold	969,856	71.8%	1,366,109	73.4%	1,137,791	71.8%	1,047,841	70.3%
Gross margin	$ 381,159	28.2%	$ 494,257	26.6%	$ 446,147	28.2%	$ 443,406	29.7%
Expenses								
Managers salary	$ 19,703	1.5%	$ 24,179	1.3%	$ 27,200	1.7%	$ 26,807	1.8%
Employees wages	133,982	9.9%	138,304	7.4%	150,082	9.5%	144,379	9.7%
Rent	35,594	2.6%	47,588	2.6%	41,354	2.6%	42,264	2.8%
Utilities (including telephone)	15,094	1.1%	17,820	1.0%	13,869	0.9%	13,473	0.9%
Insurance, licenses, and taxes (except on profit)	18,285	1.4%	13,526	0.7%	32,099	2.0%	23,607	1.6%
Repairs	4,543	0.3%	6,360	0.3%	5,569	0.4%	5,201	0.3%
Advertising	19,431	1.4%	37,532	2.0%	25,515	1.6%	28,207	1.9%
Depreciation (except on buildings)	13,038	1.0%	12,070	0.7%	8,141	0.5%	10,088	0.7%
Supplies	8,861	0.7%	9,009	0.5%	6,104	0.4%	8,138	0.5%
Headquarters fee	61,458	4.5%	63,652	3.4%	51,418	3.2%	53,081	3.6%
All other direct store expenses	25,550	1.9%	32,669	1.8%	15,892	1.0%	36,126	2.4%
		12.3%		10.4%		10.0%		11.9%
Total expenses	$ 355,539	26.3%	$ 402,709	21.7%	$ 377,243	23.8%	$ 391,371	26.2%
Net profit (before taxes)	$ 25,620	1.9%	$ 91,548	4.9%	$ 68,904	4.4%	$ 52,035	3.5%
Warehouse fee*	$ 15,943	2.1%	$ 40,215	2.7%	$ 30,078	2.6%	$ 8,540	1.2%
As a percent of cost of goods sold		3.0%		3.6%		3.6%		1.7%
Value of inventory at cost and as a percent of sales								
Prescription	$ 26,627	9.9%	$ 30,729	8.2%	$ 27,225	9.9%	$ 27,349	10.9%
Other	191,826	17.7%	247,651	16.7%	174,699	13.4%	207,545	16.7%
Total	$ 218,453	16.2%	$ 278,380	15.0%	$ 201,924	12.7%	$ 234,894	15.8%
Annual rate of turnover of inventory		4.6 times		5.1 times		5.7 times		4.5 times
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	433	$615.97	402	$746.83	323	$832.51	465	$541.47
Other	6,539	155.36	12,072	173.86	6,919	160.69	9,472	128.15
Total	6,972	183.93	12,474	192.33	7,242	190.65	9,937	147.50
Sales per dollar invested in inventory								
Prescription		$10.13		$12.18		$10.14		$ 9.15
Other		5.64		6.00		7.49		5.98
Net profit per dollar invested in inventory		$0.117		$0.329		$0.341		$0.222
Number of prescriptions dispensed								
New	20,614	48.6%	32,537	51.8%	21,998	53.7%	16,909	48.3%
Renewed	21,826	51.4%	30,236	48.2%	19,002	46.3%	18,064	51.7%
Total	42,440	100.0%	62,773	100.0%	41,000	100.0%	34,973	100.0%
Prescription charge		$6.36		$5.96		$6.73		$7.16
Number of hours per week								
Pharmacy was open		84 hours		84 hours		83 hours		79 hours
Worked by manager		47 hours		45 hours		46 hours		47 hours
Worked by employed pharmacist(s)		79 hours		74 hours		78 hours		89 hours

*Based on averages of pharmacies that reported all data

South Atlantic States (187 Pharmacies)	East South Central States (126 Pharmacies)	West South Central States (102 Pharmacies)	Mountain States (20 Pharmacies)	Pacific States (88 Pharmacies)	U.S. Average (1,293 Pharmacies)
$ 253,264— 17.0%	$ 269,376— 24.7%	$ 329,514— 17.2%	$ 256,679— 15.0%	$ 306,070— 13.0%	$ 287,744— 17.9%
1,239,214— 83.0%	819,662— 75.3%	1,589,720— 82.8%	1,457,421— 85.0%	2,042,727— 87.0%	1,319,012— 82.1%
$1,492,478—100.0%	$1,089,038—100.0%	$1,919,234—100.0%	$1,714,100—100.0%	$2,348,797—100.0%	$1,606,756—100.0%
1,051,362— 70.4%	778,782— 71.5%	1,425,066— 74.3%	1,201,535— 70.1%	1,701,805— 72.5%	1,156,667— 72.0%
$ 441,116— 29.6%	$ 310,256— 28.5%	$ 494,168— 25.7%	$ 512,565— 29.9%	$ 646,992— 27.5%	$ 450,089— 28.0%
$ 22,962— 1.5%	$ 25,370— 2.3%	$ 24,973— 1.3%	$ 27,475— 1.6%	$ 26,993— 1.1%	$ 26,515— 1.7%
160,870— 10.8%	106,501— 9.8%	204,406— 10.7%	177,080— 10.3%	220,883— 9.4%	151,781— 9.4%
49,737— 3.3%	31,690— 2.9%	45,216— 2.4%	55,699— 3.2%	52,566— 2.2%	43,224— 2.7%
20,481— 1.4%	13,881— 1.3%	19,100— 1.0%	11,617— 0.7%	14,964— 0.6%	15,876— 1.0%
13,298— 0.9%	19,693— 1.8%	36,793— 1.9%	31,887— 1.9%	31,910— 1.3%	23,956— 1.5%
4,942— 0.3%	2,355— 0.2%	1,017— 0.1%	6,750— 0.4%	6,182— 0.3%	4,831— 0.3%
27,549— 1.9%	15,720— 1.4%	6,741— 0.3%	31,514— 1.8%	37,045— 1.6%	25,439— 1.6%
7,450— 0.5%	5,201— 0.5%	13,101— 0.7%	6,171— 0.4%	13,659— 0.6%	9,670— 0.6%
7,008— 0.5%	5,727— 0.5%	12,734— 0.6%	3,345— 0.2%	11,438— 0.5%	7,881— 0.5%
47,961— 3.2%	19,192— 1.8%	12,309— 0.6%	33,902— 2.0%	39,562— 1.7%	46,357— 2.9%
30,714— 2.1%	5,979— 1.5%	36,338— 1.9%	32,536— 1.9%	46,535— 2.0%	27,000— 1.6%
10.8%	9.0%	7.1%	9.3%	8.6%	10.0%
$ 392,972— 26.4%	$ 261,309— 24.0%	$ 412,728— 21.5%	$ 417,976— 24.4%	$ 501,737— 21.3%	$ 382,530— 23.8%
$ 48,144— 3.2%	$ 48,947— 4.5%	$ 81,440— 4.2%	$ 94,589— 5.5%	$ 145,255— 6.2%	$ 67,559— 4.2%
$ 26,664— 2.7%	$ 24,489— 3.5%	$ 7,037— 1.2%	$ 9,646— 1.6%	$ 7,829— 2.6%	$ 24,729— 2.6%
3.9%	5.0%	1.7%	2.3%	3.7%	3.7%
$ 26,409— 10.4%	$ 25,914— 9.6%	$ 30,017— 9.1%	$ 21,603— 8.4%	$ 26,857— 8.8%	$ 27,491— 9.6%
182,921— 14.8%	162,602— 19.8%	216,426— 13.6%	204,962— 14.1%	277,372— 13.6%	199,624— 15.1%
$ 209,330— 14.0%	$ 188,516— 17.3%	$ 246,443— 12.8%	$ 226,565— 13.2%	$ 304,229— 13.0%	$ 227,115— 14.1%
5.0 times	4.2 times	5.8 times	5.5 times	5.8 times	5.2 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
390 $628.93	483 $547.85	547 $488.80	693 $353.89	378 $808.52	403 $662.14
10,542 120.09	7,239 100.93	5,516 148.57	7,738 173.57	9,865 203.45	8,277 147.06
10,932 138.25	7,722 128.85	6,063 179.27	8,431 188.39	10,243 225.75	8,680 170.98
$9.59	$10.39	$10.98	$11.88	$11.40	$10.47
6.77	5.04	7.35	7.11	7.36	6.61
$0.230	$0.260	$0.330	$0.417	$0.477	$0.297
22,655— 59.0%	23,419— 55.7%	29,681— 57.7%	19,901— 54.6%	23,176— 56.6%	23,639— 53.9%
15,717— 41.0%	18,652— 44.3%	21,782— 42.3%	16,577— 45.4%	17,746— 43.4%	20,238— 46.1%
38,372—100.0%	42,071—100.0%	51,463—100.0%	36,478—100.0%	40,922—100.0%	43,877—100.0%
$6.60	$6.40	$6.40	$7.04	$7.48	$6.56
87 hours	84 hours	89 hours	81 hours	78 hours	84 hours
46 hours	47 hours	45 hours	46 hours	44 hours	46 hours
78 hours	78 hours	102 hours	100 hours	80 hours	81 hours

Pharmacy Location

Table 15 illustrates how the operating statistics of a chain pharmacy differ according to location. The distribution of locations for the units participating in 1979 was as follows:

Downtown	11.6%
Neighborhood	11.8%
Neighborhood Shopping Center	62.2%
Regional Shopping Center	13.2%
Medical Office Building	1.2%

Pharmacies in downtown business districts reported the highest gross margin and, therefore, the lowest cost of goods sold. However, these outlets failed to make the highest net profit because of high total expenses produced by a larger total wage package and higher miscellaneous operating expenses. These operations showed the highest average prescription charge and the lowest number of prescriptions dispensed.

Chain drugstores in regional shopping centers listed the highest annual sales volume and the largest net profit but had the lowest prescription department revenue as a percent of total sales. These pharmacies had the largest dollar investment in inventory as well as the highest net profit per dollar of inventory investment. They also posted the lowest miscellaneous operating expenses, as percentages of sales, than any of the other locations.

Although only a small number of medical office building pharmacies responded, their data are included in order to represent the entire sample accurately and to give chain managers some comparative information about such locations.

The unique location of medical office building pharmacies influences the operating data of such units. They are characterized by a high gross margin, a large prescription income as a percent of total sales, and a high average prescription charge. However, higher total expenses offset a favorable gross margin, which produces a low net profit. Usually small in physical size, these stores have very high rental expenses; in this category, rent per square foot was $11.33 in 1979. The total wage package is also significantly higher than the figures typically recorded for chain operations. The medical office building outlets reported the lowest number of hours open, perhaps as a result of their particular locations.

TABLE 15 Chain operations according to location

AVERAGES PER PHARMACY
Sales
Prescription
Other
Total
Cost of goods sold
Gross margin
Expenses
Manager's salary
Employees' wages
Rent
Utilities (including telephone)
Insurance, licenses, and taxes (except on profit)
Repairs
Advertising
Depreciation (except on buildings)
Supplies
Headquarters fee
All other direct store expenses
Total expenses
Net profit (before taxes)
Value of inventory at cost and as a percent of sales
Prescriptions
Other
Total
Annual rate of turnover of inventory
Size of area and sales per square foot*
Prescription
Other
Total
Sales per dollar invested in inventory
Prescription
Other
Net profit per dollar invested in inventory
Number of precriptions dispensed
New
Renewed
Total
Prescription charge
Number of hours per week
Pharmacy was open
Worked by manager
Worked by employed pharmacist(s)

*Based on averages of pharmacies that reported all data.

Downtown Business District (149 Pharmacies)	Neighborhood (151 Pharmacies)	Neighborhood Shopping Center (796 Pharmacies)	Regional Shopping Center (169 Pharmacies)	Medical Office Building (15 Pharmacies)
$ 228,550— 18.3%	$ 276,283— 19.3%	$ 301,428— 17.9%	$ 294,159— 16.3%	$172,153— 33.5%
1,022,120— 81.7%	1,152,525— 80.7%	1,384,864— 82.1%	1,511,683— 83.7%	341,316— 66.5%
$1,250,670—100.0%	$1,428,808—100.0%	$1,686,292—100.0%	$1,805,842—100.0%	$513,469—100.0%
877,348— 70.2%	1,027,490— 71.9%	1,220,165— 72.4%	1,297,462— 71.8%	315,247— 61.4%
$ 373,322— 29.8%	$ 401,318— 28.1%	$ 466,127— 27.6%	$ 508,380— 28.2%	$198,222— 38.6%
$ 23,869— 1.9%	$ 27,436— 1.9%	$ 26,592— 1.6%	$ 28,422— 1.6%	$ 21,883— 4.3%
131,594— 10.5%	137,179— 9.6%	156,536— 9.3%	165,908— 9.2%	66,642— 13.0%
31,975— 2.6%	36,323— 2.5%	45,994— 2.7%	47,691— 2.6%	34,036— 6.6%
11,430— 0.9%	13,331— 0.9%	17,406— 1.0%	15,807— 0.9%	5,563— 1.1%
23,063— 1.8%	22,805— 1.6%	23,227— 1.4%	29,362— 1.6%	18,853— 3.7%
3,994— 0.3%	3,863— 0.3%	5,130— 0.3%	5,406— 0.3%	1,626— 0.3%
21,890— 1.7%	16,787— 1.2%	27,514— 1.6%	28,362— 1.6%	2,653— 0.5%
7,636— 0.6%	8,405— 0.6%	10,244— 0.6%	10,357— 0.6%	5,563— 1.1%
6,302— 0.5%	7,122— 0.5%	8,449— 0.5%	7,861— 0.4%	5,645— 1.1%
37,588— 3.0%	37,318— 2.6%	51,024— 3.0%	43,125— 2.4%	14,080— 2.7%
21,957— 1.8%	30,039— 2.1%	27,769— 1.7%	26,024— 1.5%	7,053— 1.4%
10.6%	9.8%	10.1%	9.3%	11.9%
$ 321,298— 25.6%	$ 340,608— 23.8%	$ 399,885— 23.7%	$ 408,325— 22.7%	$185,597— 35.8%
$ 52,024— 4.2%	$ 60,710— 4.3%	$ 66,242— 3.9%	$ 100,055— 5.5%	$ 14,625— 2.8%
$ 23,492— 10.3%	$ 28,125— 10.2%	$ 27,820— 9.2%	$ 29,112— 9.9%	$ 23,087— 13.4%
152,532— 14.9%	162,154— 14.1%	213,711— 15.4%	222,511— 14.7%	71,998— 21.1%
$ 176,024— 14.1%	$ 190,279— 13.3%	$ 241,531— 14.3%	$ 251,623— 13.9%	$ 95,085— 18.5%
5.0 times	5.5 times	5.2 times	5.3 times	3.4 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
351 $587.22	374 $701.98	406 $681.87	445 $644.60	357 $501.33
5,661 168.90	5,894 171.60	9,384 137.92	8,636 162.73	2,646 138.16
6,012 267.23	6,268 271.03	9,790 241.38	9,081 273.23	3,003 183.21
$9.73	9.82	$10.83	$10.10	$ 7.46
6.70	7.11	6.48	6.79	4.74
$0.296	$0.319	$0.274	$0.398	$0.154
17,478— 51.6%	21,965— 52.8%	25,214— 54.4%	24,023— 53.8%	13,265— 54.8%
16,423— 48.4%	19,616— 47.2%	21,138— 45.6%	20,664— 46.2%	10,958— 45.2%
33,901—100.0%	41,581—100.0%	46,352—100.0%	44,687—100.0%	24,223—100.0%
$6.74	$6.64	$6.50	$6.58	$7.11
75 hours	81 hours	86 hours	82 hours	62 hours
47 hours	45 hours	46 hours	46 hours	46 hours
69 hours	74 hours	83 hours	88 hours	41 hours

Two-Year Comparison of the Same Pharmacies

Table 16 offers a summary of operating statistics of 966 chain units that submitted figures for both 1978 and 1979. The right-hand column includes 327 units that sent data to the NACDS-LILLY DIGEST for the first time.

The two-year comparison indicates similar increases in both total sales and cost of goods sold (up 8.8 percent and 8.7 percent respectively), which left a larger portion of the sales dollar to cover all expenses and provide for a net profit before taxes. Total expenses rose as a percent of sales just enough to offset the gain in gross margin; therefore, net profit before taxes remained at the 1978 level of 4.7 percent of sales. In dollar amounts, net profit showed a 9.9 percent increase. The operations that participated for two consecutive years reported a slight growth in the number of prescriptions dispensed and demonstrated an uptrend in the average prescription charge, which increased by 9.7 percent.

The chain stores that had not previously sent in data recorded a lower total sales volume and dispensed fewer prescriptions. Percentagewise, gross margin was lower than in the two-year group. Higher total expenses resulted in a much lower net profit as a percent of sales. The average prescription charge was very similar in both groups of participants.

TABLE 16

Summary of operating figures in pharmacies reporting one year and two years

AVERAGES PER PHARMACY	966 Pharmacies Reporting Both Years 1979	1978	Amount and Percent of Change	327 Pharmacies Reporting Only in 1979
Sales				
Prescription	$ 298,645— 18.8%	$ 270,706— 18.5%	$ 27,939—10.3%	$255,541— 15.4%
Other	1,291,965— 81.2%	1,190,658— 81.5%	$101,307— 8.5%	398,915— 84.6%
Total	$1,590,610—100.0%	$1,461,364—100.0%	$129,246— 8.8%	$654,456—100.0%
Cost of goods sold	1,141,074— 71.7%	1,049,871— 71.8%	$ 91,203— 8.7%	202,731— 72.7%
Gross margin	$ 449,536— 28.3%	$ 411,493— 28.2%	$ 38,043— 9.2%	$451,725— 27.3%
Expenses				
Manager's salary	$ 27,420— 1.7%	$ 24,913— 1.7%	$ 2,507—10.1%	$ 23,841— 1.4%
Employees' wages	149,585— 9.4%	140,372— 9.6%	$ 9,213— 6.6%	158,269— 9.6%
Rent	42,630— 2.7%	38,807— 2.7%	$ 3,823— 9.9%	44,980— 2.7%
Other operating costs	155,413— 9.8%	139,596— 9.5%	$ 15,817—11.3%	177,543— 10.8%
Total expenses	$ 375,048— 23.6%	$ 343,688— 23.5%	$ 31,360— 9.1%	$404,633— 24.5%
Net profit (before taxes)	$ 74,488— 4.7%	$ 67,805— 4.7%	$ 6,683— 9.9%	$ 47,092— 2.8%
Number of prescriptions dispensed	45,588	45,317	271— 0.6%	38,821
Prescription charge	$6.55	$5.97	$ 0.58— 9.7%	$6.58

In Conclusion

The 1980 NACDS-LILLY DIGEST again reflects some of the long-recognized trends in the chain pharmacy industry. Total sales continued to advance, for the greatest gain in DIGEST history. Net profit as a percent of sales declined somewhat; however, the decrease in gross margin was not offset by total expenses, which remained unchanged.

Since operating costs may be expected to rise further in the future, it is important for chain managers to continue to monitor their units' operating statistics, evaluate these statistics against predetermined goals and industry averages, and initiate improvements suggested by such analysis. In this way, adequate profit can be maintained. Through such cost-control measures, these profits can be retained as capital to minimize reliance on debt and, in turn, can be used to fund planned expansion internally.

It is hoped that the NACDS-LILLY DIGEST will provide one tool that can be used effectively by chain managers in their review process. The DIGEST should be utilized only as a guide, and the individual characteristics of the pharmacy being evaluated must be kept in proper perspective so that a realistic appraisal of the firm's performance may be obtained.

For immediate submission to the NACDS-Lilly Analysis Service, forms are now available upon request from:

Lilly Analysis Service
National Association of Chain Drug Stores, Inc.
413 North Lee Street, Alexandria, Virginia 22314

NACDS headquarters will again send out forms early in 1981 for participation in the 1981 NACDS-LILLY DIGEST.